NCUA 2008
FINANCIAL STATEMENT AUDITS
FOR

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

For the year ended December 31, 2008

Audited Financial Statements	Audit Report Number
NCUA Operating Fund	OIG-10-05
National Credit Union Share Insurance Fund	OIG-10-06
Central Liquidity Facility	OIG-10-07
Community Development Revolving Loan Fund	OIG-10-08

June 11, 2010

William A. DeSarno
Inspector General

EXECUTIVE SUMMARY

PURPOSE AND SCOPE The National Credit Union Administration (NCUA) Office of Inspector General contracted with the independent public accounting firm of Deloitte & Touche LLP to perform the financial statement audits of the NCUA Operating Fund, the Share Insurance Fund[1], the Central Liquidity Facility, and the Community Development Revolving Loan Fund for the year ended December 31, 2008.

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

The audits were performed in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States. The Inspector General contracted with Deloitte & Touche LLP in August 2006 to perform the financial statement audits mentioned above. The contract was for 2006, with options for 2007 and 2008. The Inspector General was the contracting officer for this contract.

AUDIT RESULTS Deloitte & Touche LLP expressed unqualified opinions, stating that the financial statements present fairly, in all material respects, the financial position of the NCUA Operating Fund, the Share Insurance Fund, the Central Liquidity Facility, and the Community Development Revolving Loan Fund, at December 31, 2008, and the results of operations and cash flows for the year then ended.

Although Deloitte & Touche LLP did not express an overall opinion of the Funds' compliance with laws and regulations, their testing of compliance did not disclose any instances of noncompliance.

[1] Deloitte is providing an opinion on the 2008 portion of the attached 2008/2009 comparative financial statements for the Share Insurance Fund. Refer to OIG report OIG-10-10 for the 2009 opinion.

National Credit Union Administration Operating Fund

Financial Statements as of and for the
Years Ended December 31, 2008 and 2007, and
Independent Auditors' Reports

NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND

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INDEPENDENT AUDITORS' REPORT

To the Inspector General of
National Credit Union Administration:

We have audited the accompanying balance sheets of National Credit Union Administration Operating Fund (the "Fund") as of December 31, 2008 and 2007, and the related statements of revenues, expenses, and changes in fund balance, and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of National Credit Union Administration Operating Fund as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2009, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Deloitte & Touche LLP

February 17, 2009

NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND

BALANCE SHEETS
AS OF DECEMBER 31, 2008 AND 2007
(Dollars in thousands)

	2008	2007
ASSETS		
Cash and cash equivalents	$ 21,592	$ 24,175
Due from National Credit Union Share Insurance Fund (Note 4)	169	272
Employee advances	91	143
Other accounts receivable (Note 5)	283	169
Prepaid expenses and other assets	4,173	1,799
Fixed assets — net of accumulated depreciation and amortization (Note 3)	33,399	34,213
TOTAL	$ 59,707	$ 60,771
LIABILITIES AND FUND BALANCE		
LIABILITIES:		
Accounts payable	$ 4,063	$ 4,216
Obligations under capital leases (Note 6)	300	1,246
Accrued wages and benefits	4,118	3,225
Accrued annual leave	8,907	8,575
Accrued employee travel	6	5
Note payable to National Credit Union Share Insurance Fund (Note 4)	19,779	21,120
Total liabilities	37,173	38,387
COMMITMENTS AND CONTINGENCIES (Notes 9 and 10)		
FUND BALANCE:		
Unappopriated	21,534	21,384
Appropriated (Note 11)	1,000	1,000
Total fund balance	22,534	22,384
TOTAL	$ 59,707	$ 60,771

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(Dollars in thousands)

	2008	2007
REVENUES:		
Operating fees	$ 72,423	$ 63,961
Interest	773	2,213
Other	233	303
Total revenues	73,429	66,477
EXPENSES (Note 4):		
Employee wages and benefits	56,030	51,902
Travel	7,505	6,802
Rent, communications, and utilities	1,908	1,905
Contracted services	3,414	2,961
Other	4,422	4,568
Total expenses	73,279	68,138
EXCESS OF REVENUES OVER EXPENSES (EXPENSES OVER REVENUES)	150	(1,661)
FUND BALANCE — Beginning of year	22,384	24,045
FUND BALANCE — End of year	$ 22,534	$ 22,384

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(Dollars in thousands)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of revenues over expenses (expenses over revenues)	$ 150	$ (1,661)
Adjustments to reconcile excess of revenues over expenses (expenses over revenues) to net cash provided by operating activities:		
Depreciation and amortization	3,181	3,312
Provision for loss on disposal of employee residences held for resale	283	280
(Increase) decrease in assets:		
Due from National Credit Union Share Insurance Fund	103	(370)
Employee advances	52	759
Other accounts receivable	(114)	3
Prepaid expenses	(2,857)	(156)
(Decrease) increase in liabilities:		
Accounts payable	(153)	399
Accrued wages and benefits	893	654
Accrued annual leave	332	256
Accrued employee travel	1	(6)
Net cash provided by operating activities	1,871	3,470
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of fixed assets	(2,367)	(2,250)
Purchases of employee residences held for sale	(1,286)	(1,530)
Proceeds from sale of employee residences held for resale	1,486	1,290
Net cash used in investing activities	(2,167)	(2,490)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of note payable	(1,341)	(1,341)
Principal payments under capital lease obligations	(946)	(858)
Net cash used in financing activities	(2,287)	(2,199)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,583)	(1,219)
CASH AND CASH EQUIVALENTS — Beginning of year	24,175	25,394
CASH AND CASH EQUIVALENTS — End of year	$ 21,592	$ 24,175
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES — Acquisition of equipment under capital lease	$ -	$ 83
CASH PAYMENTS FOR INTEREST	$ 814	$ 1,095

See notes to financial statements.

1. ORGANIZATION AND PURPOSE

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

2. SIGNIFICANT ACCOUNTING POLICIES

Cash Equivalents — The Federal Credit Union Act permits the Fund to make investments in United States Government securities or securities guaranteed as to both principal and interest by the United States Government. Cash equivalents are highly liquid investments with original maturities of three months or less. All investments in 2008 and 2007 were cash equivalents and are stated at cost, which approximates fair value.

Depreciation and Amortization — Building, furniture, equipment and leasehold improvements are recorded at cost. Capital leases are recorded at the present value of the future minimum lease payments. Depreciation and amortization are computed by the straight-line method over the estimated useful lives of the building, furniture, and equipment, and the shorter of the estimated useful life or lease term for leasehold improvements and capital leases. Estimated useful lives are forty years for the building and three to ten years for the furniture, equipment, and leasehold improvements.

Operating Fees — The Fund assesses each federally chartered credit union an annual fee based on the credit union's asset base as of the preceding December 31. The fee is designed to cover the costs of providing administration and service to the Federal Credit Union System. The Fund recognizes this operating fee revenue ratably over the year.

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

Fair Value of Financial Instruments — The following methods and assumptions were used in estimating the fair value disclosures for financial instruments:

Cash and cash equivalents, receivables from National Credit Union Share Insurance Fund (NCUSIF) and National Credit Union Administration Central Liquidity Facility (NCUA CLF), employee advances, other accounts receivable, accounts and notes payable to NCUSIF, and other accounts payable are recorded at book values, which approximate the respective fair values.

Use of Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's estimates.

3. FIXED ASSETS

Fixed assets are comprised of the following at December 31, 2008 and 2007 (in thousands):

	2008	2007
Office building and land	$ 43,358	$ 43,358
Furniture and equipment	13,501	12,812
Equipment under capital leases	2,782	2,846
Assets under construction	1,000	320
Total	60,641	59,336
Less accumulated depreciation and amortization	(27,242)	(25,123)
Fixed assets — net	$ 33,399	$ 34,213

Accumulated amortization balances for equipment under capital leases as of December 31, 2008 and 2007, were $2,523,000 and $1,718,000, respectively.

4. TRANSACTIONS WITH NCUSIF

Certain administrative services are provided by the Fund to NCUSIF. The Fund charges NCUSIF for these services based upon an annual allocation factor approved by the NCUA Board and derived from a study of actual usage. The allocation factor to NCUSIF was 52% in 2008 and 53.3% in 2007. The cost of the services allocated to NCUSIF, which totaled approximately $ 79,385,000 and $77,766,000 for 2008 and 2007, respectively, is reflected as a reduction of the corresponding expenses in the accompanying financial statements.

In 1992, the Fund entered into a commitment to borrow up to $41,975,000 in a thirty-year secured term note with NCUSIF. The monies were drawn as needed to fund the costs of constructing a building in 1993. Interest costs incurred were approximately $807,000 and $967,000 for 2008 and 2007, respectively. The note payable balances at December 31, 2008 and 2007, were approximately $19,779,000 and $21,120,000, respectively.

The above note requires principal repayments at December 31, 2008, as follows (in thousands):

Years Ending December 31	Secured Term Note
2009	$ 1,341
2010	1,341
2011	1,341
2012	1,341
2013	1,341
Thereafter	13,074
Total	$ 19,779

The variable rate on the note is equal to NCUSIF's prior-month yield on investments. The average interest rates during 2008 and 2007, were 3.95% and 4.45%, respectively. The interest rates at December 31, 2008 and 2007, were 3.49% and 4.39%, respectively.

5. TRANSACTIONS WITH NCUA CLF

Certain administrative services are provided by the Fund to NCUA CLF. The Fund charges NCUA CLF for these services based upon rates approved by the NCUA Board. The costs of the services provided to NCUA CLF were $259,000 and $240,000 for 2008 and 2007, respectively, and are reflected as a reduction of the corresponding expenses in the accompanying financial statements.

Other accounts receivable include approximately $110,000 and $103,000 of amounts due from NCUA CLF as of December 31, 2008 and 2007, respectively.

6. LEASE COMMITMENTS

Description of Leasing Agreements — The Fund has entered into a number of lease agreements with vendors for the rental of office space, as well as the lease of office equipment that includes laptops, printers, monitors, and copiers.

Operating Leases — The Fund leases office space under lease agreements that expire through 2014. Office rental charges amounted to approximately $922,700 and $741,500 of which approximately $479,800 and $395,200 was reimbursed by NCUSIF for 2008 and 2007, respectively.

Capital Leases — The Fund leases equipment under lease agreements that expire through 2012.

The future minimum lease payments as of December 31, 2008, are as follows (in thousands):

Years Ending December 31	Operating Leases	Capital Leases
2009	$ 756	$ 258
2010	479	18
2011	487	18
2012	479	8
2013	316	
Thereafter	79	
Total	$ 2,596	302
Less imputed interest		(2)
Present value of minimum lease payments		$ 300

Based on the allocation factor approved by the NCUA Board for 2008, NCUSIF will reimburse the Fund for approximately 53.8% of the future operating lease payments.

7. RETIREMENT PLANS

The employees of the Fund are participants in the Civil Service Retirement and Disability Fund, which includes the Federal Employees' Retirement System (FERS). Both plans are defined benefit retirement plans covering all of the employees of the Fund. FERS is comprised of a Social Security Benefits Plan, a Basic Benefits Plan, and a Savings Plan. Contributions to the plans are based on a percentage of employees' gross pay. Under the Savings Plan, employees can also elect additional contributions, subject to Internal Revenue Service (IRS) limitations, and the Fund will match up to 5% of the employees' gross pay. In 2008 and 2007, the Fund's contributions to the plans were approximately $12,768,000 and $11,947,000, respectively, of which approximately $6,639,000 and $6,368,000, respectively, were reimbursed by NCUSIF.

The Fund does not account for the assets of the above plans and does not have actuarial data with respect to accumulated plan benefits or the unfunded liability relative to eligible employees. These amounts are reported by the U.S. Office of Personnel Management for the Civil Service Retirement and Disability Fund and are not allocated to individual employers.

8. DISCLOSURES OF FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount and the estimated fair value of the Fund's financial instruments are as follows (in thousands):

	December 31, 2008		December 31, 2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 21,592	$ 21,592	$ 24,175	$ 24,175
Due from NCUSIF	169	169	272	272
Employee advances	91	91	143	143
Other accounts receivable	283	283	169	169
Accounts payable	4,063	4,063	4,216	4,216
Obligation under capital leases	300	300	1,246	1,246
Note payable to NCUSIF	19,779	19,779	21,120	21,120

9. CONTINGENCIES

The Fund is currently a party to a number of disputes that involve or may involve litigation. In the opinion of management, the ultimate liability with respect to any other disputes, if any, will not be material to the Fund's financial position.

10. PURCHASE COMMITMENTS

The Fund has entered into a new three-year agreement to lease laptops and other computer equipment. Payments will commence in April 2009 and will be made quarterly throughout the life of the lease. The total amount of payments under the lease will be approximately $3,145,000, of which approximately $2,413,000 will be paid by the Fund and remaining $732,000 will be paid by NCUSIF.

In addition, the Fund has entered into an agreement with the Department of Transportation for the implementation and hosting of a new financial system. The project has a budget in the amount of

$5,000,000 for one time implementation and licensing costs, of which $2,400,000 was paid in 2008. Annual hosting costs will be approximately $950,000 starting in 2010.

11. RETAINED EARNINGS APPROPRIATION

In 2006, the NCUA Board established an appropriation of the Fund's fund balance in an effort to more transparently disclose and communicate to stakeholders earnings that are needed for major projects that cannot be accrued or that do not warrant inclusion in the annual operating expense budget. The initial appropriation of $1,000,000 is for repairs and maintenance on NCUA's Alexandria headquarters building. In 2008, this amount did not change.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Inspector General of
National Credit Union Administration:

We have audited the financial statements of the National Credit Union Administration Operating Fund (the "Fund"), as of and for the year ended December 31, 2008, and have issued our report thereon dated February 17, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

Compliance and Other Matters

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

We noted certain matters that we have reported to the management of the Fund in a separate letter dated February 17, 2009.

This report is intended solely for the information and use of the Inspector General, the Board of the National Credit Union Administration, and the management of the National Credit Union Administration Operating Fund and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

February 17, 2009

National Credit Union Share Insurance Fund

Financial Statements as of and for the Years Ended
December 31, 2009 and 2008, and
Independent Auditors' Reports

NATIONAL CREDIT UNION SHARE INSURANCE FUND

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KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Financial Statements

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

We have audited the accompanying balance sheet of the National Credit Union Share Insurance Fund (NCUSIF) as of December 31, 2009, and the related statements of operations, changes in fund balance, and cash flows for the year then ended (hereinafter referred to as "financial statements"). These financial statements are the responsibility of the NCUSIF's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the 2009 financial statements referred to above present fairly, in all material respects, the financial position of the National Credit Union Share Insurance Fund as of December 31, 2009, and the results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our reports dated June 11, 2010, on our consideration of the NCUSIF's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audit.

KPMG LLP

June 11, 2010

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INDEPENDENT AUDITORS' REPORT

To the Inspector General of
National Credit Union Administration:

We have audited the accompanying balance sheet of the National Credit Union Share Insurance Fund (NCUSIF) as of December 31, 2008, and the related statements of operations, changes in fund balance, and of cash flows for the year then ended. These financial statements are the responsibility of NCUSIF's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of the National Credit Union Share Insurance Fund as of December 31, 2008, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 8 to the financial statements, effective June 18, 2009, NCUSIF legally transferred certain obligations to a newly formed entity, the Temporary Corporate Credit Union Stabilization Fund (TCCUSF). As a result, effective with that date, NCUSIF was no longer required to consolidate certain corporate credit unions in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 810, *Consolidation* (formerly, FASB Interpretation No. 46 (R), *Consolidation of Variable Interest Entities)*. Because NCUSIF and TCCUSF are under common control, this has resulted in a change in reporting entity in accordance with FASB ASC 250, *Accounting Changes and Error Corrections*, which change has been applied retrospectively.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 10, 2010, on our consideration of NCUSIF's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Deloitte & Touche LLP

June 10, 2010

NATIONAL CREDIT UNION SHARE INSURANCE FUND

BALANCE SHEETS
AS OF DECEMBER 31, 2009 AND 2008
(Dollars in thousands)

	2009	2008
ASSETS		
Cash and cash equivalents (Note 4)	$ 817,439	$ 3,837,344
Investments (Note 5)	8,698,313	4,243,313
Contributions receivable from insured credit unions	17,614	992
Note receivable due from NCUA Operating Fund (Note 7)	18,438	19,779
Premium receivable	12,901	-
Loans receivable (Note 7)	10,000,000	-
Assets acquired in assistance to insured credit unions	204,525	103,175
Fixed assets — net of accumulated depreciation and amortization	58	80
Accrued interest receivable	72,356	39,848
Accrued fee receivable	-	1,929
Total assets	$ 19,841,644	$ 8,246,460
LIABILITIES AND FUND BALANCE		
LIABILITIES		
Cash assistance liability	$ 5,393	$ 2,000
Amounts due to insured shareholders of liquidated credit unions	12,192	10,356
Due to NCUA Operating Fund (Note 12)	2,257	169
Reserve for losses (Note 9)	758,741	278,343
Interest payable	1,302	-
Obligations under capital lease	-	89
Note payable (Note 12)	10,000,000	-
Accounts payable	27,474	56
Total liabilities	10,807,359	291,013
Commitments and Contingencies (Note 14)		
FUND BALANCE		
Insurance fund balance	1,889,798	1,700,003
Insured credit unions' accumulated contributions (Note 11)	7,067,139	5,977,106
Accumulated other comprehensive income	77,348	278,338
Total fund balance	9,034,285	7,955,447
Total liabilities and fund balance	$ 19,841,644	$ 8,246,460

See accompanying Notes to the Financial Statements

NATIONAL CREDIT UNION SHARE INSURANCE FUND

STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(Dollars in thousands)

	2009	2008
REVENUES		
Premium income (Note 10)	$ 727,466	$ -
Investment income	188,774	390,922
Interest on note receivable due from related party	509	807
Interest on loans	32,791	1,178
Other income	19	2,752
Total revenues	949,559	395,659
EXPENSES		
Employee wages and benefits	69,966	60,699
Travel	10,161	8,130
Rent, communications, and utilities	2,255	2,067
Contracted services	4,646	3,698
Interest expense	32,791	-
Other	14,805	6,922
Provision for insurance losses	625,140	290,354
Total expenses	759,764	371,870
EXCESS OF REVENUES OVER EXPENSES	$ 189,795	$ 23,789

See accompanying Notes to the Financial Statements

NATIONAL CREDIT UNION SHARE INSURANCE FUND

STATEMENTS OF CHANGES IN FUND BALANCE
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(Dollars in thousands)

	Insurance Fund Balance	Insured Credit Unions' Accumulated Contributions	Accumulated Other Comprehensive Income	Comprehensive Income	Total
BALANCE — January 1, 2008	$ 1,676,214	$ 5,585,256	$ -	$ -	$ 7,261,470
Contributions from insured credit unions	-	391,850	-	-	391,850
Excess of revenues over expenses	23,789	-	-	23,789	23,789
Other comprehensive income - changes in unrealized gain on available for sale investments	-	-	278,338	278,338	278,338
Comprehensive income	-	-	-	$ 302,127	
BALANCE — December 31, 2008	1,700,003	5,977,106	278,338	$ -	7,955,447
Contributions from insured credit unions	-	1,090,033	-	-	1,090,033
Excess of revenues over expenses	189,795	-	-	189,795	189,795
Other comprehensive income - changes in unrealized gain on available for sale investments	-	-	(200,990)	(200,990)	(200,990)
Comprehensive loss	-	-	-	$ (11,195)	
BALANCE — December 31, 2009	$ 1,889,798	$ 7,067,139	$ 77,348		$ 9,034,285

See accompanying Notes to the Financial Statements

NATIONAL CREDIT UNION SHARE INSURANCE FUND

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(Dollars in thousands)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of revenues over expenses	$ 189,795	$ 23,789
Adjustments to reconcile excess of revenues over expenses to cash provided by operating activities:		
Depreciation and amortization	82	323
Amortization of premiums and discounts on investments — net	78,916	44,465
Provision for insurance losses	625,140	290,354
Insurance losses paid, net	(144,742)	(227,791)
(Increase) decrease in assets:		
Premium receivable	(12,901)	-
Assets acquired in assistance to insured credit unions — net	(101,350)	(37,291)
Accrued interest receivable	(32,508)	20,203
Accrued fee receivable	1,929	(1,929)
Increase (decrease) in liabilities:		
Cash assistance liability	3,393	2,000
Amounts due to insured shareholders of liquidated credit unions	1,836	5,463
Due to NCUA Operating Fund	2,088	(103)
Interest payable	1,302	-
Due to credit unions	-	(30,853)
Accounts payable	27,418	21
Net cash provided by operating activities	640,398	88,651
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(6,095,297)	(2,335,125)
Proceeds from maturities on investments	1,360,391	1,800,000
Proceeds from sales of investments	-	2,500,000
Capital expenditures	(60)	-
Collections on note receivable — NCUA Operating Fund	1,341	1,341
Net cash (used in) provided by investing activities	(4,733,625)	1,966,216
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions from insured credit unions	1,073,411	391,012
Principal payments under capital lease obligation	(89)	(351)
Net cash provided by financing activities	1,073,322	390,661
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(3,019,905)	2,445,528
CASH AND CASH EQUIVALENTS — Beginning of year	3,837,344	1,391,816
CASH AND CASH EQUIVALENTS — End of year	$ 817,439	$ 3,837,344
CASH PAYMENTS FOR INTEREST	$ -	$ 7
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Loans to Corporate Credit Unions (CCUs) financed through CLF borrowings	$ 10,000,000	$ -

See accompanying Notes to the Financial Statements.

1. ORGANIZATION AND PURPOSE

OVERVIEW OF THE NATIONAL CREDIT UNION SHARE INSURANCE FUND

The National Credit Union Share Insurance Fund ("NCUSIF") was created by Title II of the Federal Credit Union Act, 12 U.S.C. 1781 et seq., as amended by section 136(b) of the Emergency Economic Stabilization Act of 2008, 12 U.S.C. 5241(b), and the Helping Families Save Their Homes Act of 2009, §204, Pub. L. No. 111-22, 123 Stat. 1632, 1648 (2009) ('Helping Families Act'). The NCUSIF was established as a revolving fund in the United States Treasury, under the Board of Directors of the National Credit Union Administration (NCUA), for the purpose of insuring member share deposits in all federal credit unions and for qualifying state credit unions requesting insurance.

The NCUA exercises direct supervisory authority over federal credit unions and coordinates required supervisory involvement with the state chartering authority for state chartered credit unions insured by the NCUSIF. Insured credit unions are required to report certain financial and statistical information to NCUA on a quarterly basis, and are subject to periodic examination by the NCUA. Information derived through the supervisory and examination process provides the NCUSIF with the ability to identify credit unions experiencing financial difficulties that may require assistance from the NCUSIF.

Assistance may be in the form of a waiver of statutory reserve requirements, a guarantee account, cash assistance, or other such form. In some cases, a merger partner for the credit union may be sought. Mergers between financially troubled credit unions and stronger credit unions may also require NCUSIF assistance. Merger assistance may be in the form of cash assistance, purchase of certain assets by the NCUSIF, and/or guarantees of the values of certain assets (primarily loans). When a credit union is no longer able to continue operating and the merger and assistance alternatives are not practical, the NCUSIF may liquidate the credit union, pay members' shares up to the maximum insured amount, and dispose of its assets.

A change in reporting entity, related to certain variable interest entities, has been retrospectively presented herein. With this change in reporting entity, the NCUSIF was no longer required to consolidate any corporate credit unions.

Recent Legislation — The Helping Families Act increased deposit insurance coverage to $250,000 through December 31, 2013, and created the Temporary Corporate Credit Union Stabilization Fund ("TCCUSF"), 12 U.S.C. 5241(b), 1790e. The purposes of the TCCUSF are to accrue the losses of the Corporate Credit Union ("CCU") system, and over time, to assess the entire credit union system for the recovery of such losses. The act does not permit recovery of losses ahead of funds advanced to pay such losses; instead, funds to pay losses are provided through borrowings from the U.S. Treasury. NCUA has 28 corporate credit unions which provide liquidity, investment, and payment services to natural person credit unions. On June 18, 2009, the NCUA Board approved actions to legally obligate the TCCUSF for the costs of stabilizing the CCU system. These actions included legally obligating the TCCUSF as the issuer and holder of a $1 billion capital note with U.S. Central Federal Credit Union ("USC"), and for all liabilities arising from the Temporary Corporate Credit

Union Share Guarantee Program ("TCCUSGP") and the Temporary Corporate Credit Union Liability Guarantee Program ("TCCULGP"). The TCCUSGP guarantees the entire share amount member credit unions have on deposit with CCUs. The TCCULGP guarantees timely payment of principal and interest on certain unsecured debt of participating CCUs.

Sources of Funding — Deposits insured by NCUSIF are backed by the full faith and credit of the U.S. Government. NCUSIF has multiple sources of funding. Each insured credit union is required to deposit and maintain in the NCUSIF one percent of its insured shares. The NCUA Board may also assess premiums to all federally insured credit unions as provided by the Federal Credit Union Act.

In addition, the NCUSIF has $6 billion in borrowing authority, shared with the TCCUSF, from the U.S. Treasury for use in unforeseen emergencies. This borrowing may be temporarily increased to an amount not to exceed $30 billion.

Under the Federal Credit Union Act, NCUSIF also has the ability to borrow from the NCUA Central Liquidity Facility ("CLF"). If in the judgment of the NCUA Board, a loan to the NCUSIF is required at any time for carrying out the purposes of its programs, the NCUSIF is authorized to borrow from the CLF, having access to CLF's unused borrowing authority.

Significant Developments — On March 20, 2009, the NCUSIF made two $5 billion liquidity stabilization loans to USC and Western Corporate Federal Credit Union ("WesCorp"), respectively, with funds borrowed from the CLF. These advances are due to the CLF on December 21, 2010, as discussed further below.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation — The NCUSIF has historically prepared its financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP"), based on standards issued by the Financial Accounting Standards Board ("FASB"), the private sector standards setting body. In October 1999, the American Institute of Certified Public Accountants (AICPA) designated the Federal Accounting Standards Advisory Board ("FASAB") as the standards setting body for the establishment of accounting principles generally accepted in the United States of America with respect to the financial statements of Federal government entities. The FASAB has indicated that the preparation of financial statements based upon standards promulgated by the FASB may be regarded as being in accordance with GAAP for those Federal entities, which includes the NCUSIF, that have issued financial statements based upon FASB standards in the past. To be consistent with historical reporting, the NCUSIF's financial statements are presented in accordance with accounting and financial reporting standards promulgated by the FASB. These statements include the accounts of the NCUSIF and are consolidated as necessary with any variable interest entities for which the NCUSIF is deemed to be the primary beneficiary. As explained herein, no entities were consolidated in either 2009 or 2008.

Basis of Accounting — The financial statements are presented in accordance with the accrual basis of accounting. As such, the NCUSIF recognizes income when earned and expenses when incurred. The NCUSIF recognizes loans upon issuance and related repayments when received. The NCUSIF investment transactions are recognized on trade date. The NCUSIF recognizes borrowings when received and repayments when made. In addition, the NCUSIF recognizes interest on loans, interest on investments, and revenue from premium assessments when earned and recognizes interest on borrowings and expenses when incurred.

Assets Acquired in Assistance to Insured Credit Unions — The NCUSIF acquires the assets of liquidating credit unions pending their ultimate disposition. To assist in the merger of credit unions, the NCUSIF may purchase certain credit union assets. In addition, the NCUSIF may provide cash assistance by acquiring nonperforming assets of a credit union experiencing financial difficulty. These acquired assets are recorded by the NCUSIF at their estimated net realizable value.

Use of Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the amounts of revenues and expenses reported during that period. Actual results could differ from estimates. Significant items subject to those estimates and assumptions include reserve for losses and contingencies. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

Cash and Cash Equivalents — The Federal Credit Union Act permits the NCUSIF to make investments in United States Government securities or securities guaranteed as to both principal and interest by the United States Government. Cash equivalents are liquid investments with original maturities of three months or less.

Loans and Note Receivable — Notes and loans receivable relate to advances and loans to credit unions and the National Credit Union Administration Operating Fund. They bear interest based on rates set by U.S. Treasury and are recorded at face value. The NCUSIF does not intend to sell these receivables.

An allowance for doubtful accounts is the NCUSIF's best estimate of the amount of credit losses in the existing notes. The allowance is determined on an individual note basis upon review of any note that has a payment past due for over 60 days. A note is impaired if it is probable that the NCUSIF will not collect all principal and interest contractually due. The impairment, if any, is measured based on the present value of expected future cash flows discounted at the note's effective interest rate. As of December 31, 2009 and 2008, the NCUSIF had not recorded any allowances for notes or loans receivable nor recognized any amounts to be impaired, as the NCUSIF expects to recover amounts across the notes and loans receivable as contractually agreed upon.

The NCUSIF does not accrue interest when a note has been considered impaired. When ultimate collectability of the principal balance of the impaired note is in doubt, all cash receipts on impaired notes are applied to reduce the principal amount of such notes until the principal has been recovered and is recognized as interest income thereafter. Impairment losses are charged against the allowance and increases in the allowance are charged to bad debt expense. Notes are written off against the allowance when all possible means of collection have been exhausted and the potential for recovery is considered remote.

Variable Interest Entities — An entity is referred to as a variable interest entity ("VIE") if it meets the criteria outlined in ASC 810, *Consolidation* (formerly FASB Interpretation No. 46 (R), *Consolidation of Variable interest Entities* (*revised December 2003*) (FIN 46(R)), which are: (1) the entity has equity that is insufficient to permit the entity to finance its activities without additional subordinated financial support from other parties, or (2) the entity has equity investors that cannot make significant decisions about the entity's operations or that do not absorb their proportionate share of the expected losses or receive the expected returns of the entity.

In addition, a VIE must be consolidated by the reporting entity that is deemed to be the primary beneficiary of the VIE, which is the party involved with the VIE that has the majority of the expected losses or a majority of the expected residual returns or both.

The NCUSIF has variable interests in natural person credit unions ("NPCU"s) that may be deemed VIEs. These entities are regularly monitored by the NCUSIF to determine their status and whether any reconsideration events have occurred that could cause its primary beneficiary status to change. These events include changes in contractual arrangements in a manner that reallocates expected losses and residual returns among the variable interest holders and providing support to an entity that results in an implicit variable interest.

Other Receivables

Accrued Interest Receivable

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

Contributions Receivable from Insured Credit Unions

Each insured credit union pays to the Fund a deposit amount equal to 1% of the credit union's insured shares. On an annual basis the NCUSIF recalculates the appropriate deposit amount for each credit union's insured shares and reconciles the calculated deposit amount to the current deposit amount held by the NCUSIF. Any deposit shortfalls are billed to the credit unions to true-up their current deposited amounts, thereby returning deposit levels to the requisite 1% of insured shares. Any deposit surpluses over the requisite 1% of insured shares are refunded back to the credit unions. For credit unions with more than $50 million in insured shares, this true-up process is performed twice a year.

Premium Receivable

NCUSIF has the statutory authority according to the Federal Credit Union Act of 2003 (revised in 2007 and 2009) Section 1782 "Administration of the Insurance Fund" to assess the federally insured credit unions for a premium charge. The NCUSIF may assess each insured credit union a premium charge for insurance in an amount stated as a percentage of insured shares outstanding as of the most recently ended reporting period, if the NCUSIF's equity ratio is less than 1.3%. Premium receivable refers to premium charge amounts that have been billed to federally insured credit unions, but have not been received as of the balance sheet date.

Investments — Investment securities at December 31, 2009 and 2008, consist solely of U.S. Treasuries. Effective December 31, 2008, all holdings in the NCUSIF investment portfolio were transferred from *held-to-maturity* to *available-for-sale*. Management determined that NCUSIF could no longer assert that it had the positive intent and ability to hold these securities to maturity, as they might be sold in response to a liquidity need.

Available-for-sale securities are recorded at fair value. Unrealized holding gains and losses are excluded from earnings and reported as a separate component of accumulated other comprehensive income until realized. Realized gains and losses from the sale of *available-for-sale* securities are determined on a specific identification basis.

A decline in the market value of any *available-for-sale* security below cost that is deemed to be *other-than-temporary* results in an impairment to reduce the carrying amount to fair value. The impairment is charged against earnings and a new cost basis for the security is thereafter established. To determine whether an impairment is *other-than-temporary*, the NCUSIF takes into consideration whether it has the ability and intent to hold a particular investment long enough until a market price recovery occurs, which entails consideration of evidence to indicate the cost of the investment is recoverable. Evidence considered in this assessment includes the reasons for the impairment, the severity and duration of the impairment, expected changes in value of the investment subsequent to year-end, forecasted performance of the investee, and the general market condition in the geographic area or industry the investee operates in.

Premiums and discounts are amortized or accreted over the life of the related *available-for-sale* security as an adjustment to yield using the effective interest method. The aforementioned amortization and accretion of a premium and discount, respectively, is recorded in the following manner: (1) for premiums, the amortization of that premium is recorded to a valuation adjustment account (contra-asset), which is netted against the security's carrying amount to bring the recorded amount of the investment back to down to par, (2) for discounts, the accretion of a discount is recorded directly to the security's carrying amount to bring the recorded amount of the investment back up to par. Dividend and interest income are recognized when earned.

Fixed Assets — Property, plant, equipment, and related intangible assets, subject to amortization, are carried at amortized cost. Depreciation and amortization are recognized over the useful life.

Long-Lived Assets — In accordance with FASB ASC 360, *"Accounting for the Impairment or Disposal of Long-Lived Assets"*, long-lived assets, such as property, plant, and equipment, and purchased intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group to be tested for possible impairment, NCUA initially performs a comparison between the undiscounted cash flows expected to be generated by that asset or asset group to its carrying value. If the carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values, and third party independent appraisals, as considered necessary.

Amounts due to Insured Shareholders of Liquidated Credit Unions — The NCUSIF recognizes a liability for monies to be paid to insured shareholders of failed, federally insured credit unions.

Revenue Recognition — The NCUSIF recognizes revenue when interest on investments or loans are earned and when assessments to credit unions have been invoiced.

Reserve for Losses — The NCUSIF records a contingent liability and a loss provision for losses incurred in the resolution of troubled institutions. Through NCUA's supervision process, NCUA applies a supervisory rating system to assess each credit union's relative health in the adequacy of **C**apital, the quality of **A**ssets, the capability of **M**anagement, the quality and level of **E**arnings, and the adequacy of **L**iquidity ("CAMEL"), applying a 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.

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

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

Fair Value of Financial Instruments — The NCUSIF adopted ASC 820-10, *Fair Value Measurements and Disclosures*. The statements defines fair value, expands disclosure requirements around fair value and specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the NCUSIF's market assumptions. This hierarchy requires the NCUSIF to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value.

Related Party Transactions — The NCUSIF is one of the five funds under the common control of the NCUA Board. The NCUSIF had related party transactions during 2009 with the NCUA Operating Fund, the CLF and the TCCUSF, as discussed further within the notes to the financial statements.

3. NEWLY IMPLEMENTED ACCOUNTING STANDARDS

In 2009, NCUSIF adopted an amendment to the accounting standards on the GAAP hierarchy (FASB ASC 105). This amendment changes the GAAP hierarchy used in the preparation of financial statements of non-governmental entities. It establishes the FASB Accounting Standards Codification as the source of authoritative accounting principles recognized by the FASB to be applied by non-governmental entities in the preparation of financial statements in conformity with GAAP in the United States. Rules and interpretive releases of the U.S. Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The adoption of this amendment had no impact to the financial statements.

In 2009, the NCUSIF adopted the amendment to the accounting standards for subsequent events (FASB ASC 855). This amendment establishes general standards of accounting for, and disclosing events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In particular, this statement sets forth (a) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (b) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and (c) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. It also requires entities to disclose the date through which subsequent events were evaluated, and determine whether that date is the date that financial statements were issued or the date they were available to be issued. The adoption of this amendment did not have a material impact on the financial statements.

4. CASH AND CASH EQUIVALENTS

NCUSIF's cash and cash equivalents at December 31, 2009 and 2008, are as follows:

	2009	2008
(Dollars in thousands)		
Deposits with U.S. Treasury	$ 217	$ 384
U.S. Treasury overnight investments	817,222	3,836,960
Total cash and cash equivalents	$ 817,439	$ 3,837,344

5. INVESTMENTS

The Federal Credit Union Act, Section 1783 (c) as amended provides guidance regarding holding U.S. Treasury securities. The NCUSIF currently does not hold any corporate debt or equity securities. All investments at the NCUSIF pertain to U.S. Treasury securities of varying maturities.

In addition, the NCUSIF does not maintain any investments in securities that have been classified as *trading* or *held-to-maturity* as per FASB ASC 320, *"Investments — Debt and Equity Securities."*

The carrying amount, gross unrealized holding gains, gross unrealized holding losses, and fair value of *available-for-sale* debt securities at December 31, 2009 and 2008, were as follows:

	Carrying Amount	Gross Unrealized Holding Gains	Gross Unrealized Holding (Losses)	Fair value
(Dollars in thousands)				
At December 31, 2009				
Available for sale:				
U.S. Treasury securities	$ 8,620,965	$ 127,388	$ (50,040)	$ 8,698,313
At December 31, 2008				
Available for sale:				
U.S. Treasury securities	$ 3,964,975	$ 278,338	$ -	$ 4,243,313

Maturities of debt securities classified as *available-for-sale* at December 31 were as follows:

	Fair value
(Dollars in thousands)	
Available for sale:	
Due prior to one year	$ 1,470,781
Due after one year through five years	6,788,485
Due after five years through ten years	439,047
	$ 8,698,313

Proceeds from the sale of investment securities classified as *available-for-sale* were $0 and $2.5 billion in 2009 and 2008, respectively; gross realized gains included in investment income in 2009 and 2008 were $0 and $106 million, respectively; and there were no realized losses in 2009 or 2008.

Gross unrealized losses on investment securities, for which *other-than-temporary impairments* have not been recognized, in addition to the fair values of those securities, aggregated by investment classification and length of time the investments have been in a loss position, at December 31, 2009, were as follows:

	Duration of Losses - Less than 12 months		
	Unrealized losses	**Unrealized gains**	**Fair value**
(Dollars in thousands)			
Available for sale:			
U.S. Treasury securities	$ (50,040)	$ 127,388	$ 8,698,313

The unrealized losses on investments in U.S. Treasury securities, included in the table above, were the result of lower interest rates. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost of the investment. Because the NCUSIF asserts the ability and intent to hold these investments until a market price recovery occurs or until maturity, these investments are not considered *other-than-temporarily-impaired*.

6. FAIR VALUE MEASUREMENTS AND DISCLOSURES

Fair Value of Financial Instruments

The NCUA adopted ASC 820-10, *Fair Value Measurements and Disclosures*. The statement defines fair value, expands disclosure requirements around fair value and specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect NCUSIF's market assumptions.

Cash and Cash Equivalents, Receivables and Payables, Due to the NCUA Operating Fund, and Amounts Due to Insured Shareholders of Liquidated Credit Unions

The carrying amounts, at face value or cost plus accrued interest, approximate fair value because of the short maturity of these instruments.

Investment Securities

Debt securities classified as *available-for-sale* are measured using quoted market prices multiplied by the quantity held when quoted market prices are available. These instruments are determined to be Level 1 inputs.

The following tables present the carrying amounts and estimated fair values of NCUSIF's financial instruments at December 31, 2009 and 2008. FASB ASC 825, "*Financial Instruments",* defines fair value as either the price received to sell an asset or the price paid to transfer a liability, as part of an orderly transaction between market participants at the measurement date.

The fair values of the financial instruments shown in the below table as of December 31, 2009 and 2008, represents management's best estimates for either the amount that would be received to sell those assets, or the amount that would be paid to transfer those liabilities in an orderly transaction between market participants at that date. Those fair value measurements maximize the use of observable inputs. However, in situations where there is little, if any, market activity for the asset or liability at the measurement date, the fair value measurement reflects the judgment by the NCUSIF, regarding the assumptions market participants would consider, in pricing the asset or liability. The NCUSIF's judgment, in this instance, was developed through utilizing the best information available at the time, under the given circumstances.

(Dollars in thousands)

		2009		2008	
		Carrying value	Fair value	Carrying value	Fair value
Financial assets:					
Cash and cash equivalents	$	817,439	817,439	3,837,344	3,837,344
Investments		8,698,313	8,698,313	4,243,313	4,243,313
Contributions receivable from insured credit unions		17,614	17,614	992	992
Due from NCUA Operating Fund		18,438	18,438	19,779	19,779
Premium receivable		12,901	12,901	-	-
Loans receivable		10,000,000	10,000,000	-	-
Assets acquired in assistance to insured credit unions		152,423	152,423	71,216	71,216
Accrued interest receivable		72,356	72,356	39,848	39,848
Accrued fee receivable		-	-	1,929	1,929
Financial liabilities:					
Cash assistance liability		5,393	5,393	2,000	2,000
Amounts due to insured shareholders of liquidated credit unions		12,192	12,192	10,356	10,356
Due to NCUA Operating Fund		2,257	2,257	169	169
Interest payable		1,302	1,302	-	-
Obligations under capital leases		-	-	89	89
Note payable		10,000,000	10,000,000	-	-
Accounts payable		27,474	27,474	56	56

(Dollars in thousands)

			Fair value measurements at reporting date using		
		December 31, 2009	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Assets:					
Investments	$	8,698,313	8,698,313	-	-

(Dollars in thousands)		Fair value measurements at reporting date using		
	December 31, 2008	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Investments	$ 4,243,313	4,243,313	-	-

The carrying amounts shown in the tables above are included on the balance sheets under the indicated captions.

7. LOANS AND NOTES RECEIVABLE

U.S. Central and Wescorp Liquidity Stabilization Loans

On March 20, 2009, the NCUSIF made two $5.0 billion liquidity stabilization loans (with funds borrowed from the CLF) to USC and WesCorp respectively. These advances were issued for settlement on March 20, 2009, by the NCUSIF and are fully collateralized by the assets of the borrowers referred to herein. Both advances have a fixed interest rate of 0.528% as of December 31, 2009. Interest payments are scheduled for June 21, 2010, in the amount of $13.1 million (per advance) and for December 21, 2010, in the amount of $13.2 million (per advance), with the principal due on December 21, 2010, in the amount of $5.0 billion (per advance).

The notes were originally issued to both USC and WesCorp on March 20, 2009, by the NCUSIF, with a maturity date of June 22, 2009 (with principal and interest due on that date). Upon maturity, both notes were extended with a maturity date of December 21, 2009. Upon maturity on December 21, 2009, both notes were extended once more for a full year, with a current maturity date of December 21, 2010.

National Credit Union Administration Operating Fund

In 1992, the NCUSIF lent approximately $42 million to the NCUA Operating Fund, pursuant to a thirty-year note secured by the NCUA premises in Alexandria, Virginia. Interest income recognized was approximately $509 thousand and $807 thousand for 2009 and 2008, respectively. The note receivable balances at December 31, 2009 and 2008, were approximately $18.4 million and $19.8 million, respectively.

The variable rate on the note is equal to NCUSIF's prior-month yield on investments. The average interest rates during 2009 and 2008, were 2.56 % and 3.95%, respectively. The interest rates at December 31, 2009 and 2008, were 2.06 % and 3.49%, respectively.

The above note requires principal repayments at December 31 as follows (in thousands):

Years Ending December 31	**Secured Term Note**
2010	$ 1,341
2011	1,341
2012	1,341
2013	1,341
2014	1,341
Thereafter	11,733
Total	$ 18,438

8. VARIABLE INTEREST ENTITIES

National Person Credit Unions

During the year ended December 31, 2009, NCUA held variable interests in the natural person credit unions ("NPCUs") it supervises and regulates in the form of insurance on member deposits up to $250,000. Reconsideration events (e.g. conservatorships) could result in such credit unions being deemed VIEs and NCUA becoming the primary beneficiary of the NPCU VIEs. Total insured shares for NPCUs, or maximum exposure to loss, as of December 31, 2009 and 2008, were $724.8 billion and $658.9 billion, respectively.

NCUA has documented herein the process for identifying needed reserves, both specific and general, to cover expected losses due to insurance on member deposits. Expected losses are only a fraction of the maximum exposure to loss; approximately 1.0 percent for 2009 and less than 0.5 percent for 2008. The total reserves for identified and anticipated losses resulting from NPCU failures are $758.7 million and $278.3 million at December 31, 2009 and 2008, respectively.

Corporate Credit Unions

During 2008 and through June 2009, there was significant discussion at NCUA regarding the variable interests held in corporate credit unions (CCUs"), which resulted from NCUA actions to stabilize the CCU system. It was concluded that for 2008 the NCUSIF would be the primary beneficiary of certain identified VIEs based on variable interests held by the NCUSIF at December 31, 2008, and therefore, the NCUSIF would have been required to consolidate such VIEs in its financial statements for the year ended December 31, 2008. However, based on the actions discussed below, it was concluded that the TCCUSF would be the primary beneficiary of these same VIEs based on variable interests held by the TCCUSF at December 31, 2009. The shift in primary beneficiary from 2008 to 2009 was the result of the June 18, 2009, actions of the NCUA Board to transfer the legal obligations related to CCUs from the NCUSIF to the TCCUSF. Such actions relieved the NCUSIF for the costs and related obligations of stabilizing the CCU system, as provided by Public Law 111-22, which was enacted May 20, 2009.

Given the shift in 2009 for the responsibility for corporate stabilization efforts from the NCUSIF to the TCCUSF, the NCUSIF has applied ASC 250 *Accounting Changes and Error Correction"*, as discussed in the next paragraph.

On June 18, 2009, the NCUA Board approved actions to legally transfer corporate stabilization efforts to the TCCUSF and relieve the NCUSIF of such activities. Accordingly NCUSIF is no longer required to consolidate any corporate credit unions. Furthermore, because the NCUSIF and the TCCUSF are under common control, this resulted in a change in reporting entity. This change in reporting entity has been applied retrospectively to 2008. Accordingly, the accompanying financial statements for the year ended December 31, 2008 do not reflect the consolidation of any CCUs.

9. RESERVE FOR LOSSES

Management identifies credit unions experiencing financial difficulty through NCUA's supervisory and examination process. Management on a specified case basis determines the estimated losses from these supervised credit unions. Management also evaluates overall economic trends and monitors potential system-wide risk factors, such as increasing levels of consumer debt, bankruptcies, and delinquencies. NCUA applies a rating system to assess a credit union's financial condition and operations in the areas of **C**apital Adequacy, **A**sset Quality, **M**anagement, **E**arnings, and Asset/**L**iability Management ("CAMEL"). The CAMEL Rating System is a tool to measure risk and allocate resources for supervisory purposes. NCUA periodically reviews the CAMEL Rating System to respond to continuing economic and regulatory changes in the credit union industry. For general reserve requirements, risk profile categories are established based on the CAMEL ratings of problem credit unions, and probable failure and loss rates are applied based on historical data. The anticipated losses are net of estimated recoveries from the disposition of the assets of failed credit unions.

Total insured shares for natural person credit unions as of December 31, 2009 and 2008, were $724.8 billion and $658.9 billion, respectively. The total reserves for identified and anticipated losses resulting from supervised credit unions' failures are $758.7 million and $278.3 million at December 31, 2009 and 2008, respectively.

In exercising its supervisory function, the NCUSIF will at times, extend guarantees of assets (primarily loans) to third-party purchasers or to existing credit unions to facilitate mergers. The NCUSIF would be obligated upon nonperformance. No such guarantees were outstanding at December 31, 2009 and 2008. Estimated losses resulting from asset and merger guarantees are evaluated by management on a case-by-case basis.

In addition, the NCUSIF may grant a guaranteed line-of-credit to a third-party credit provider, such as a corporate credit union or bank, if a particular credit union were to have a current or immediate liquidity concern and the credit provider has refused to extend credit without a guarantee. The NCUSIF would thereby be obligated if the credit union failed to perform. Total line-of-credit guarantees of credit unions at December 31, 2009 and 2008, are approximately $1.0 million and $50.0 million, respectively. The total balances outstanding under these line-of-credit guarantees at December 31, 2009 and 2008, are approximately $0.0 and $22.0 million, respectively. The carrying amount of the liability as of December 31, 2009 and 2008, for the outstanding NCUSIF guarantees is $18.5 thousand and $1.1 million, respectively. The guarantees expire in March of 2010.

On rare occasions, the NCUSIF provides indemnifications, as part of a merger assistance agreement, to acquiring credit unions. Such indemnifications make the NCUSIF contingently liable based on the outcome of any legal actions. There was one such indemnification contingency at December 31, 2009, for $37,000, which expires in December 2010. As of December 2008, there was one indemnification contingency for $37,000, which expires in December 2010.

The activity in the reserve for losses from supervised credit unions for the years ended December 31, 2009 and 2008, was as follows:

(Dollars in thousands)	2009	2008
Beginning balance	$ 278,343	$ 215,780
Insurance losses paid	(161,685)	(284,626)
Recoveries	16,943	56,835
Provision for insurance losses	625,140	290,354
Ending balance	$ 758,741	$ 278,343

The increase in the provision for insurance losses is due to the following (in thousands):

Specific reserves — increased from $46,043 at December 31, 2008, to $161,841 at December 31, 2009.

General reserves — increased from $232,300 at December 31, 2008, to $596,900 at December 31, 2009. Reserve amounts pertaining to the CCU system included $3.7 million for 2008. In 2009, the amount pertaining to the CCU system was $0, as all of the reserves pertaining to the corporate credit unions were obligated to the TCCUSF.

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

10. PREMIUM INCOME

The fund may assess each insured credit union a premium charge for insurance in an amount stated as a percentage of insured shares outstanding as of the most recently ended reporting period if the Fund's equity ratio is less than 1.3%. When the Board projects that the equity ratio will, within six months, fall below 1.2%, the Board shall establish and implement a restoration plan within 90 days, which meets the requirements and conditions that the Board determined appropriate. In order to meet the requirements established by the Board, the plan must provide that the equity ratio will meet or exceed the minimum amount specified before the end of the 8-year period beginning upon the implementation of the plan (or such longer period as the Board may determine to be necessary due to extraordinary circumstances). In November 2009, the NCUA Board assessed a .1027 percent premium of insured shares totaling $727.5 million.

11. INSURED CREDIT UNIONS' ACCUMULATED CONTRIBUTIONS

In 1998, the Federal Credit Union Act was amended to mandate changes to the NCUSIF's capitalization provisions effective January 1, 2001. 12 U.S.C. 1782(a). The Credit Union Membership Access Act of 1998 (CUMAA) mandated changes to the NCUSIF's capitalization provisions effective January 1, 2000. Each insured credit union shall pay to and maintain with the NCUSIF a deposit in an amount equaling 1% of the credit union's insured shares. The amount of each insured credit union's deposit shall be adjusted as follows, in accordance with procedures determined by the NCUA, to reflect changes in the credit union's insured shares: (i) annually, in the case of an insured credit union with total assets of not more than $50 million; and (ii) semiannually, in the case of an insured credit union with total assets of $50 million or more. The annual and semiannual adjustments are based on member share deposits outstanding as of December 31 of the preceding year and June 30 of the current year, respectively. The 1% contribution will be returned to the insured credit union in the event that its insurance coverage is terminated, or is obtained from another source, or the operations of the NCUSIF are transferred from the NCUA.

Beginning in 2000, the CUMAA mandates that dividends are determined from specific ratios, which are based upon year-end reports of insured shares. Accordingly, dividends associated with insured shares at year-end are declared and paid in the subsequent year.

In December 2007, the NCUA set the normal operating level at 1.30%. The calculated equity ratios at December 31, 2009 and 2008, were 1.23% and 1.26%, respectively.

Total insured shares as of December 31, 2009 and 2008, were $724.8 billion and $658.9 billion, respectively. The equity ratio for 2008 was calculated based on an insured share base of $611.6 billion. Although deposit insurance coverage was increased from $100,000 to $250,000, the calculation for the equity ratio was based on the $100,000 level due to the temporary nature of the increase in insurance coverage. Insurance coverage at the $250,000 level was subsequently extended to December 31, 2013.

12. RELATED PARTY TRANSACTIONS

Central Liquidity Facility

On March 19, 2009, the NCUA Board took steps to stabilize the corporate credit union system when it placed USC and WesCorp into conservatorship. The NCUSIF has in place with the CLF, a Funding Commitment and Agreement and a Short-Term Revolving Promissory Note dated March 20, 2009, to fund $20.0 billion with a final maturity date of any advance at December 31, 2010. There was $10.0 billion remaining on this commitment as of December 31, 2009. CLF approved an advance of $10.0 billion to NCUSIF in order for NCUSIF to make $5.0 billion in liquidity stabilization loans to both USC and WesCorp. The notes were originally issued to both USC and WesCorp on March 20, 2009, by the NCUSIF, with a maturity date of June 21, 2009 (with principal and interest due on that date). Upon maturity, both notes were extended with a maturity date of December 21, 2009. Upon maturity on December 21, 2009, both notes were extended once more for a full year, with a current maturity date of December 21, 2010. The advance bears interest at a rate of 0.528% per annum at December 31, 2009.

NCUA Operating Fund (OF)

Certain administrative services are provided to the NCUSIF by the OF. The OF charges NCUSIF for these services based upon an annual allocation factor approved by the NCUA Board and derived from a study of actual usage. As of December 31, 2009 and 2008, the NCUSIF had accrued $2.3 million and $169,000, respectively, in amounts due to the NCUA Operating Fund. The allocation factor was 53.8% to NCUSIF for 2009 and 52.0% for 2008. The cost of the services allocated to NCUSIF, which totaled approximately $90.2 million and $79.4 million for 2009 and 2008, respectively, is reflected as an addition to the corresponding expenses in the accompanying financial statements.

The NCUSIF issued a secured term note in 1992 to fund the costs of constructing a building in 1993 for the OF. The amount funded through the note was approximately $42.0 million. Interest costs incurred were $509,000 and $807,000 for 2009 and 2008, respectively. The note payable balances at December 31, 2009 and 2008 were approximately $18.4 million and $19.8 million, respectively.

The variable rate on the note is equal to NCUSIF's prior-month yield on investments. The average interest rates during 2009 and 2008, were 2.56 % and 3.95%, respectively. The interest rates at December 31, 2009 and 2008, were 2.06 % and 3.49%, respectively.

Temporary Corporate Credit Union Stabilization Fund ("TCCUSF")

On June 18, 2009, the NCUA Board approved actions to legally obligate the TCCUSF, and thereby relieve the NCUSIF, for the costs of stabilizing the CCU system as previously described herein. As a result, the status of issuer and holder of the Capital Note was legally obligated to the TCCUSF and relieved from the NCUSIF. The Board also approved to legally obligate the TCCUSF for the liability arising from the TCCUSGP and TCCULGP; both programs having also been relieved from the NCUSIF.

13. CONCENTRATIONS

The NCUSIF has the following concentrations of risk: 10 of the largest natural person credit unions hold 13.6 percent of the total assets within the credit union system and account for 13.0 percent of the contributed capital within the credit union system. Real estate secured loans are the largest single asset type within the natural person credit union system, accounting for 35.0 percent of total assets. The states of California, Florida, Arizona, and Nevada present a credit concentration risk accounting for 22.0 percent of the total real estate loans outstanding and 31 percent of total delinquent loans.

14. COMMITMENTS AND CONTINGENCIES

The Fund is currently a party to a number of disputes that involve or may involve litigation. In the opinion of management, the ultimate liability with respect to any other disputes, if any, will not be material to the Fund's financial position.

15. SUBSEQUENT EVENTS

Subsequent events have been evaluated through June 10, 2010, which is the date the financial statements were available to be issued. There have been no activities that would materially affect financial statement balances as of December 31, 2009.

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Internal Control Over Financial Reporting

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

We have audited the balance sheet of the National Credit Union Share Insurance Fund (NCUSIF) as of December 31, 2009, and the related statements of operations, changes in fund balance, and cash flows for the year then ended (hereinafter referred to as "financial statements"), and have issued our report thereon dated June 11, 2010.

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

The management of the NCUSIF is responsible for establishing and maintaining effective internal control. In planning and performing our fiscal year 2009 audit, we considered the NCUSIF's internal control over financial reporting by obtaining an understanding of the NCUSIF's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements. To achieve this purpose, we did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to express an opinion on the effectiveness of the NCUSIF's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the NCUSIF's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses.

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

KPMG

In our fiscal year 2009 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency that is described in Exhibit I. Exhibit III presents the status of the prior year material weakness.

The NCUSIF's responses to the finding identified in our audit are presented in Exhibit II. We did not audit the NCUSIF's response and, accordingly, we express no opinion on it.

We noted certain additional matters that we have reported to management of the NCUSIF in a separate letter dated June 11, 2010.

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

KPMG LLP

June 11, 2010

NATIONAL CREDIT UNION – SHARE INSURANCE FUND

SIGNIFICANT DEFICIENCY

Introduction

This exhibit describes the significant deficiency noted during our audit as of and for the year ended December 31, 2009, and our recommendations thereon. The National Credit Union Share Insurance Fund (the SIF) management's response to this finding is presented in Exhibit II.

Improvements Needed in Financial Accounting and Reporting Process

The SIF does not have sufficient staff resources with the experience in technical accounting and reporting requirements that the entity requires to consistently perform certain internal control activities, particularly those related to the preparation and review of the financial statements. For example, we noted:

1 A lack of documentation of control activities. The SIF does not have procedures in place that require review and approval of the journal entries and related supporting documentation because the journal entries that we tested did not have evidence that the journal entries were reviewed and approved by someone other than the preparer.

2 Lack of formal policies and procedures that require periodic reassessment of the adequacy and propriety of required disclosure and that also would stipulate the review process and require secondary reviews and approvals of the financial statements and related supporting documentation.

3 Supervisory reviews that were nonetheless performed were not entirely effective in identifying improper financial statement presentation and missing disclosures. In part, the individuals compiling the financial statements did not possess sufficient technical knowledge and/or institutional expertise that would enable effective performance of such preparation and reviews. For example, the draft financial statements prepared for the year ended December 31, 2009 did not properly identify and present comprehensive income and its related components in the statement of fund balance and comprehensive income. Additionally, such draft financial statements also improperly aggregated certain items on the statement of cash flows to comprise both non-cash reconciling items and actual cash disbursements. Additionally, there were several occurrences of inconsistencies, in similarly or identically described amounts, both between the basic financial statements and the amounts in the note disclosures and internally within the notes. As a result of our observations, management analyzed and adjusted the financial report.

Office of Management and Budget (OMB) Circular No. A-123, *Management Accountability and Control*, defines management's responsibility and provides guidance to Federal managers on improving the accountability and effectiveness of Federal programs and operations by establishing, assessing, correcting, and reporting on internal control. Management controls are the organization policies and procedures used to reasonably ensure that (i) programs achieve their intended results; (ii) resources are used consistent with agency mission; (iii) programs and resources are protected from waste, fraud, and mismanagement; (iv) laws and regulations are followed; and (v) reliable and timely information is obtained, maintained, reported and used for decision making. Further, OMB Circular No. A-123 elaborate on both general attributes and specific controls that are essential for effective management controls. Management is responsible for developing control activities, which are the policies, procedures, techniques, and mechanisms that enforce management's directives and help ensure actions address risks.

The activities include reviews by management at the functional or activity level, proper execution of transactions and events, accurate and timely recording of transactions and events, and appropriate documentation of transactions and internal control. Without such effective controls, there is an increased risk of material misstatements to the financial statements and related disclosures.

Recommendations

We recommend that the NCUA modify accounting policies, procedures and controls as follows:

- Reassess on a comprehensive basis the staff capabilities and operational and reporting processes to determine the areas where new and/or revised controls are warranted. This is especially vital when viewed within the context of the migration to the new financial accounting system. Consider also the control environment to determine the necessary requirements to satisfy the criteria referenced above.

- Match qualified personnel who are regularly trained and who possess the unique skills necessary to account for and report NCUA transactions consistent with the requirements of U.S. generally accepted accounting principles to the key NCUA process and control activities.

- Improve the overall core competencies of key financial management and personnel through training that is sufficiently robust and focused on the areas of need.

- Adopt formal methodology to regularly (at least annually) evaluate and update the Fund's policies and procedures to adapt to significant operational changes and adopt accounting pronouncement as such changes occur. Where transactions are similar across the NCUA, it may be advantageous to prepare combined accounting policies and pro forma disclosures.

Exhibit II

NATIONAL CREDIT UNION SHARE INSURANCE FUND
MANAGEMENT RESPONSE TO AUDIT FINDINGS

Findings: Improvements Needed in Financial Accounting and Reporting Process

The OCFO experienced a significant increased level of work during 2009, including implementing a new financial management system, adding the Temporary Corporate Credit Union Stabilization Fund, assessing insured credit unions for the collection of a premium, and addressing a considerable increase in the level of complexity in accounting transactions and reporting.

The financial statement audit, which resulted in an unqualified opinion, identified findings related to needed improvement in the National Credit Union Share Insurance Fund's (NCUSIF) financial accounting and reporting processes. NCUA agrees that they warrant management's attention.

We believe the findings can best be categorized as:

1. Lack of documentary evidence of supervisory review, especially over journal entries;
2. Comprehensiveness of documentation with accounting policies and procedures; and
3. Weaknesses with conforming our annual financial statements into the form and content required by Generally Accepted Accounting Principles.

We will implement corrective action to address these findings taking into consideration the agency's resources and priorities.

1. Lack of documentary evidence of supervisory review, especially over journal entries:

   As a small agency with limited resources, NCUA is still required to assess its internal control structure with the goal of ensuring that risks are appropriately mitigated. As part of implementing our new financial management system, we will review controls around journal entries and consider establishing a threshold for documenting supervisory review of journal entries above a certain dollar threshold or unusual in nature.

2. Comprehensiveness of documentation with accounting policies and procedures:

   Audit findings highlighted the lack of comprehensiveness of our accounting policies and procedures as well as available documentation to evidence compliance. In response, NCUA will review controls where the availability of documentation appeared limited and strengthen processes accordingly. NCUA will also start building a repository of accounting and internal control policies and practices, which can be readily accessed by all NCUA staff.

3. Weaknesses with conforming our annual financial statements into the form and content required by generally accepted accounting principles:

   NCUA is a small Federal agency and must focus its resources on essential functions. Financial accounting and reporting is viewed by executive agency management as important and essential. Financial highlights of all funds are made available to all at public Board meetings and on the agency's web site. The findings cited by our auditors relate to our annual process of preparing the financial statements in the form and content required by generally accepted accounting principles. To strengthen our financial reporting, we will review and refine our internal control processes and evaluate training requirements. We will also hire additional staff with requisite skills.

NATIONAL CREDIT UNION – SHARE INSURANCE FUND

STATUS OF PRIOR YEAR MATERIAL WEAKNESS

Prior Year Material Weakness

During the fiscal year 2008 financial statement audit, the prior year auditors noted a material weakness regarding the National Credit Union Share Insurance Fund (NCUSIF) accounting and reporting for the consolidation of certain variable interest entities.

Current Year Status of the Prior Year Material Weakness

During fiscal year 2009, management determined that due to the change in reporting entity, the NCUSIF no longer should consolidate the variable interest entities identified during the 2008 financial statement audit. Certain accounting and reporting deficiencies continued to be observed in 2009 as described in Exhibit I.

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Compliance and Other Matters

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

We have audited the balance sheet of the National Credit Union Share Insurance Fund (NCUSIF) as of December 31, 2009, and the related statements of operations, changes in fund balance, and cash flows for the year then ended (hereinafter referred to as "financial statements"), and have issued our report thereon dated June 11, 2010.

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

The management of the NCUSIF is responsible for complying with laws, regulations, and contracts applicable to the NCUSIF. As part of obtaining reasonable assurance about whether the NCUSIF's financial statements are free of material misstatement, we performed tests of the NCUSIF's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contracts applicable to the NCUSIF. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests of compliance discussed in the third paragraph of this report disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

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

KPMG LLP

June 11, 2010

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Inspector General of
National Credit Union Administration:

We have audited the financial statements of the National Credit Union Share Insurance Fund (NCUSIF) as of and for the year ended December 31, 2008, and have issued our report thereon dated June 10 , 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered NCUSIF's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of NCUSIF's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of NCUSIF's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned function, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness. See finding 2008-01.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Inspector General, the Board of the National Credit Union Administration, and the management of the National Credit Union Share Insurance Fund and is not intended to be, and should not be, used by anyone other than these specified parties.

Deloitte & Touche LLP

June 10, 2010

NATIONAL CREDIT UNION SHARE INSURANCE FUND

SCHEDULE OF FINDINGS AND RESPONSES
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008

FINDING 2008-01

Condition: National Credit Union Share Insurance Fund (NCUSIF) failed to properly identify the appropriate accounting treatment under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 810, *Consolidation* (formerly, FASB Interpretation No. 46 (R), *Consolidation of Variable Interest Entities* with respect to its variable interests in certain corporate credit unions.

Criteria: An entity is a variable interest entity (VIE) if it meets the criteria outlined in ASC 810, which are: (1) the entity has equity that is insufficient to permit the entity to finance its activities without additional subordinated financial support from other parties, or (2) the entity has equity investors that cannot make significant decisions about the entity's operations or that do not absorb their proportionate share of the expected losses or receive the expected returns of the entity. A VIE must be consolidated by the reporting entity that is deemed to be the primary beneficiary of the VIE, which is the party involved with the VIE that has the majority of the expected losses or a majority of the expected residual returns or both. NCUSIF was deemed to be the primary beneficiary of certain VIE's at December 31, 2008.

Effect: NCUSIF should have consolidated the VIE's in which it was the primary beneficiary as of December 31, 2008. However, effective June 18, 2009, NCUSIF legally transferred its obligations with respect to the corporate credit unions to a newly formed entity, the Temporary Corporate Credit Union Stabilization Fund (TCCUSF). As a result, effective with that date, NCUSIF was no longer required to consolidate VIE's in accordance with ASC 810. Because NCUSIF and TCCUSF are under common control, this has resulted in a change in reporting entity in accordance with FASB ASC 250, *Accounting Changes and Error Corrections*; accordingly, TCCUSF is now considered the primary beneficiary.

Cause: This condition results from a deficiency in the design of internal control as NCUSIF did not initially identify the correct accounting treatment for its variable interests in certain corporate credit unions.

Monetary Impact: There is no monetary impact associated with this finding due to the fact that subsequent to December 31, 2008, NCUSIF legally transferred its obligations with respect to the corporate credit unions to a newly formed entity.

Recommendation: NCUSIF should consider all relevant accounting literature as it prepares its financial statements to ensure accuracy in accounting and presentation.

Management Response: NCUA is a small Federal agency and must focus its resources on essential functions. Financial accounting and reporting is viewed by executive agency management as important and essential. Financial highlights of all funds are made available to all at public Board meetings and on the agency's web site. The finding cited by our auditors relates to our annual process of preparing the financial statements in the form and content required by generally accepted accounting principles. To strengthen our financial reporting, we will review and refine our internal control processes and evaluate training requirements. We will also hire additional staff with requisite skills.

National Credit Union Administration Central Liquidity Facility

Financial Statements as of and for the
Years Ended December 31, 2008 and 2007, and
Independent Auditors' Reports

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

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INDEPENDENT AUDITORS' REPORT

To the Inspector General of
National Credit Union Administration:

We have audited the accompanying balance sheets of the National Credit Union Administration Central Liquidity Facility (CLF) as of December 31, 2008 and 2007, and the related statements of operations, members' equity (deficit), and cash flows for the years then ended. These financial statements are the responsibility of CLF's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of the National Credit Union Administration Central Liquidity Facility as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 4 to the financial statements, effective December 31, 2008, CLF has changed the presentation of its funds on deposit with U. S. Central Federal Credit Union.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2010, on our consideration of CLF's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Deloitte & Touche LLP

March 15, 2010

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

BALANCE SHEETS
AS OF DECEMBER 31, 2008 AND 2007
(In thousands)

	2008	2007
ASSETS		
ASSETS:		
Cash	$ 17	$ 12
Funds on deposit with U.S. Central Federal Credit Union (Notes 4, 6, and 11)	-	1,638,285
Loans to members (Notes 5, 6 and 11)	1,585,478	-
Accrued interest receivable	14,669	23,922
TOTAL	$ 1,600,164	$ 1,662,219
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES:		
Accounts payable and other liabilities	$ 2,287	$ 132
Dividends payable (Note 8)	12,369	23,777
Federal Financing bank notes payable	1,585,478	-
Member deposits (Note 8)	486	642
Total liabilities	1,600,620	24,551
MEMBERS' EQUITY (DEFICIT):		
Capital stock — required (Note 3)	1,707,710	1,626,260
Funds on deposit with U.S Central Federal Credit Union (Notes 4, 6, and 11)	(1,719,574)	-
Retained earnings	11,408	11,408
Total members' equity (deficit)	(456)	1,637,668
TOTAL	$ 1,600,164	$ 1,662,219

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(In thousands)

	2008	2007
REVENUE :		
Investment income	$ 57,580	$ 89,259
Interest — loans to members (Note 5)	8,689	-
Total revenue	66,269	89,259
EXPENSES (Note 9):		
Personnel services	157	144
Other services	49	48
Rent, communications, and utilities	10	10
Employee travel	1	-
Group agent service fee	1	-
Personnel benefits	35	33
Supplies and materials	2	1
Printing and reproduction	4	4
Total operating expenses	259	240
Interest — Federal Financing Bank loans (Note 7)	8,691	-
Interest — liquidity reserve	32	53
Total expenses	8,982	293
EXCESS OF REVENUE OVER EXPENSES	$ 57,287	$ 88,966

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

STATEMENTS OF MEMBERS' EQUITY (DEFICIT)
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(In thousands)

	Capital Stock	Funds on Deposit	Retained Earnings	Total
BALANCE — January 1, 2007	$ 1,537,649	$ -	$ 11,408	$ 1,549,057
Issuance of required capital stock	89,709	-	-	89,709
Redemption of required capital stock	(1,098)	-	-	(1,098)
Dividends	-	-	(88,966)	(88,966)
Excess of revenue over expenses	-	-	88,966	88,966
BALANCE — December 31, 2007	1,626,260	-	11,408	1,637,668
Issuance of required capital stock	81,474	-	-	81,474
Redemption of required capital stock	(24)	-	-	(24)
Reclassification (Notes 4 and 11)	-	(1,719,574)	-	(1,719,574)
Dividends	-	-	(57,287)	(57,287)
Excess of revenue over expenses	-	-	57,287	57,287
BALANCE — December 31, 2008	$ 1,707,710	$ (1,719,574)	$ 11,408	$ (456)

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(In thousands)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of revenue over expenses	$ 57,287	$ 88,966
Adjustments to reconcile excess of revenue over expenses to net cash provided by operating activities:		
Decrease in accrued interest receivable	9,253	(2,536)
Increase in accounts payable and other liabilities	2,155	2
Net cash provided by operating activities	68,695	86,432
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments — net	(81,289)	(88,607)
Repayment of loans from members	1,172,372	-
Loans to members	(2,757,850)	-
Net cash used in investing activities	(1,666,767)	(88,607)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Additions to member deposits	1,458	1,872
Issuance of required capital stock	81,474	89,709
Dividends	(68,695)	(86,456)
Withdrawal of member deposits	(1,614)	(1,852)
Redemption of required capital stock	(24)	(1,098)
Repayment of note to the FFB	(1,172,372)	-
Proceeds from issuing notes to the FFB	2,757,850	-
Net cash provided by financing activities	1,598,077	2,175
NET INCREASE IN CASH	5	-
CASH — Beginning of year	12	12
CASH — End of year	$ 17	$ 12
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION — Cash paid during the year for interest	$ 6,570	$ 52

See notes to financial statements.

1. ORGANIZATION AND PURPOSE

The National Credit Union Administration Central Liquidity Facility (CLF) was created by the National Credit Union Central Liquidity Facility Act (the "Act"). CLF is designated as a mixed-ownership government corporation under the Government Corporation Control Act. CLF exists within the National Credit Union Administration (NCUA) and is managed by the National Credit Union Administration Board. CLF became operational on October 1, 1979.

CLF was created to improve the general financial stability of credit unions by serving as a liquidity lender to credit unions experiencing unusual or unexpected liquidity shortfalls. CLF accomplishes its purpose by borrowing funds, subject to certain statutory limitations, when a liquidity need arises. CLF is a tax-exempt organization under Section 501(c)(1) of the Internal Revenue Code.

CLF is subject to various Federal laws and regulations. CLF's operating budget requires Congressional approval, and the CLF is not permitted to approve applications for credit, the intent of which is to expand credit union portfolios. CLF's investments are restricted to obligations of the U.S. Government and its agencies, deposits in federally insured financial institutions, and shares and deposits in credit unions. Borrowing is limited by statute to 12 times the subscribed capital stock and surplus.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting — CLF maintains its accounting records on the accrual basis of accounting.

Loans and Allowance for Loan Losses — Loans, when made to members, are on a short-term, seasonal or protracted need basis. For all liquidity-need loans, CLF secures each loan by a first priority security interest in assets of the member credit union. In determining the allowance for loan losses, when applicable, CLF evaluates the collectibility of its loans to members through examination of the financial condition of the individual borrowing credit unions and the credit union industry in general.

Funds on Deposit With U.S. Central Federal Credit Union — CLF invests in redeposits and share accounts at U.S. Central Federal Credit Union (USC) (Notes 4, 6, and 11). These are nontransferable, nonnegotiable instruments that are acquired at face value and carried at cost.

Fair Value of Financial Instruments — The following methods and assumptions were used in estimating the fair value disclosures for financial instruments:

Cash — The carrying amounts for cash approximate fair value.

Investments — Fair values of financial instruments with maturities over one year are computed using the market rate of interest at year-end. For financial instruments with maturities of one year or less, the carrying amounts approximate fair value.

Loans — For loans advanced to member credit unions, the carrying amounts approximate fair value.

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

FFB Notes Payable — For notes issued to the Federal Financing Bank (FFB), when applicable, the carrying amounts approximate fair value.

Other — Accrued interest receivable, accounts payable, and other liabilities are recorded at book values, which approximate the respective fair values.

Use of Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's estimates.

3. CAPITAL STOCK

Membership in CLF is voluntary and is open to all credit unions that subscribe to a required amount of capital stock or are members of an Agent member that has subscribed to the capital stock on their behalf. There are two types of membership, Regular (natural person credit unions) and Agent (a credit union or group of credit unions serving other natural person credit unions). Natural person credit unions may borrow from CLF directly as a regular member or indirectly through an Agent member.

The required capital stock account represents the portion of capital stock subscriptions remitted to CLF by member credit unions. Regular members' required subscription amounts equal one-half of one percent of their paid-in and unimpaired capital and surplus. One-half of this amount is required to be remitted to CLF. Agent members' required subscription amounts equal one-half of one percent of the paid-in and unimpaired capital and surplus of all of the credit unions served by the Agent member that are not Regular members. One-half of that amount is required to be remitted to CLF. In both cases, the remainder may be held by the member on call of the CLF Board. The unremitted subscription amounts are not reflected in CLF's financial statements. Subscriptions are adjusted annually to reflect changes in the member credit unions' paid-in and unimpaired capital and surplus. Dividends are declared and paid on required capital stock as determined by the Board.

A member of CLF whose capital stock account constitutes less than five per cent of the total capital stock outstanding may withdraw from membership in CLF six months after notifying the NCUA Board of its intention to do so. A member whose capital stock account constitutes five per cent or more of the total capital stock outstanding may withdraw from membership in CLF 24 months after notifying the NCUA Board of its intention.

The required capital stock is redeemable upon demand by the members. The redemption is not mandatory, as defined in FASB Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*; therefore classification in permanent equity is appropriate.

CLF's capital stock accounts are composed of the following:

	2008	2007
Regular members	$ 64,363	$ 60,613
Agent member	1,643,347	1,565,647
Total	$ 1,707,710	$ 1,626,260

The agent member capital stock account balance at December 31, 2008 and 2007, is represented by one member, U. S. Central Federal Credit Union (USC), that serves as the Agent Group Representative for all other corporate credit unions (Notes 4, 6, and 11).

4. FUNDS ON DEPOSIT WITH U.S. CENTRAL FEDERAL CREDIT UNION

During fiscal year 1984, CLF accepted a membership request from USC to be an Agent Group Representative on behalf of its corporate credit union members. At December 31, 2008 and 2007, $1,643,347,000 and $1,565,647,000, respectively, of the required (paid-in) portion of subscribed capital stock was purchased from CLF by USC on behalf of its corporate credit union members. USC has 26 corporate credit union members as of both December 31, 2008 and 2007.

As permitted by statute, CLF investments are restricted to obligations of the U. S. Government and its agencies, deposits in federally insured financial institutions, and shares and deposits in credit unions. CLF had elected to deposit all of its agent member share capital in USC at market rates of interest. At December 31, 2008 and 2007, approximately $1,719,574 and $1,638,285,000, respectively, was held on deposit in USC accounts at a yield of 2.86% and 5.77%, respectively, as follows (in thousands):

	2008	2007
U.S. Central Federal Credit Union Share Account	$ 1,712,574	$ 1,632,285
U.S. Central Federal Credit Union Share Certificates	7,000	6,000
	$ 1,719,574	$ 1,638,285

As a result of the deterioration of USC's financial condition and the potential uncertainty surrounding USC's ability to immediately repay the funds held on deposit, CLF determined that the economic substance of CLF's funds on deposit with USC had changed. Accordingly, effective December 31, 2008, CLF changed its accounting treatment of its funds on deposit with USC and reclassified the funds on deposit with USC to a contra-equity presentation (Note 11). CLF has followed the guidance in EITF 85-1, *Classifying Notes Receivable for Capital Stock*, as a basis for presenting its funds on deposit with USC as contra-equity. The amounts on deposit represent USC's capital stock balance with CLF; USC, as of December 31, 2008, does not have the intent or ability to repay these funds to CLF within a relatively short period of time. As discussed in Note 11, effective August 3, 2009, CLF transferred its funds from USC to direct deposit with the U. S. Treasury.

A Memorandum of Understanding (MOU), effective July 1, 2005, sets forth the understanding of CLF and the USC concerning the investments by CLF in USC Share Account and Certificates.

As provided in the MOU, all investments by CLF in shares of USC will be in either the Share Account or Share Certificates. The Share Account is a three-month, fixed rate account that provides for automatic re-investment at maturity and funds are available without penalty upon seven days notice. The Share Account is only available to CLF. In the event of a liquidation of USC, shares in the account will be redeemable in full, prior to the redemption of any other shares of USC.

The Share Certificates are fixed rate, with a maturity fixed upon issuance (three or five years under the current MOU). Redemption prior to maturity is permitted, in whole or in part, if the CLF requests early redemption and if the USC and the CLF agree on an early redemption value. The Share Certificates are neither negotiable nor assignable.

5. LOANS TO MEMBERS

The balance of outstanding loans as of December 31, 2008, was $1,585,478,115. Interest rates of these loans range from .50 % to 2.25%, and their maturities extend through October 2009. CLF can provide members with extensions on their loans. Of the total amount of loans outstanding, $1,510,000,000 was due from USC (Note 6). There were no outstanding loans or loan commitments at December 31, 2007.

6. CONCENTRATION OF CREDIT RISK

At December 31, 2008, CLF has a concentration of credit risk for its shareholder loan with USC of approximately $1,719,574, 000 (Notes 4 and 11). At December 31, 2007, CLF has a concentration of credit risk for its funds on deposit with USC of approximately $1,638,285,000 (Note 4), and at December 31, 2008 and 2007, for its loans to USC of approximately $1,510,000,000 and $0, respectively (Note 5).

7. BORROWING AUTHORITY

CLF is authorized by statute to borrow, from any source, an amount not to exceed 12 times its subscribed capital stock and surplus. Congress, through the appropriations process, placed a limit on gross obligations for 2008 and 2007 at $1.5 billion. However, effective October 1, 2008, under Public Law 110-329, Consolidated Security, Disaster Assistance, and Continuing Appropriations Act, 2009, Congress took action to remove the annual borrowing limitation of $1.5 billion to enable CLF to borrow up to its full statutory authority of approximately $41 billion.

CLF borrows exclusively from the Federal Financing Bank (FFB). The National Credit Union Administration maintains a note purchase agreement with the FFB on behalf of CLF. Under the terms of its agreement, CLF borrows from the FFB as needed. Under terms prescribed by the master note agreement, CLF executes promissory notes in amounts as necessary and renews them annually. During 2008, CLF borrowed amounts totaling $2,757,849,774 from FFB under fifty-six separate loan agreements, which it, in turn, loaned to member credit unions. The amounts owed to the FFB at December 31, 2008 totaled $1,585,478,000.

At December 31, 2008 and 2007, CLF was in compliance with its borrowing authority.

8. MEMBER DEPOSITS

Member deposits represent amounts remitted by members over and above the amount required for membership. Interest is paid on member deposits at a rate equivalent to the dividend rate paid on required capital stock.

Dividends payable represents dividends declared in 2008 and 2007 to be paid in 2009 and 2008, respectively.

9. SERVICES PROVIDED BY THE NATIONAL CREDIT UNION ADMINISTRATION

NCUA provides CLF with information technology and other services and supplies. In addition, NCUA pays CLF's employees' salaries and benefits as well as CLF's portion of monthly building operating costs. CLF reimburses NCUA on a monthly basis for these items. The total amounts charged by NCUA were approximately $259,000 and $240,000 for the years ended December 31, 2008 and 2007, respectively. As of December 31, 2008 and 2007, accounts payable and other liabilities include approximately $110,000 and $103,000, respectively, due to the NCUA Operating Fund for services provided.

10. DISCLOSURE OF FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount and the estimated fair value of CLF's financial instruments at December 31, 2008 and 2007 are as follows (in thousands):

	2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash	$ 17	$ 17	$ 12	$ 12
Funds on deposit with U.S. Central Federal Credit Union	-	-	1,638,285	1,638,473
Loans to members	1,585,478	1,585,478	-	-
Accrued interest receivable	14,669	14,669	23,922	23,922
Accounts payable and other liabilities	2,287	2,287	132	132
Dividends payable	12,369	12,369	23,777	23,777
Federal Financing bank notes payable	1,585,478	1,585,478	-	-
Member deposits	486	486	642	642

11. U. S. CENTRAL FEDERAL CREDIT UNION AND RELATED SUBSEQUENT EVENTS

As described in Note 4, funds on deposit with U.S. Central Federal Credit Union in 2007 were presented as an asset in the accompanying balance sheets. Beginning in 2008, CLF began accounting for its agent member share capital invested in USC accounts as a shareholder loan at a market rate yielding 2.86%. Transactions with equity owners need to be evaluated to determine their substance and the appropriate reporting in the financial statements based on the terms of the transaction, including interest rates, payment terms and maturities, evidence of ability and intent of repayment, nature and sufficiency of collateral.

CLF took into account the complex interrelationship between its stock ownership arrangement and its lending activities during the final months of 2008 and subsequent actions taken in 2009 as detailed below. The existing interrelationships include USC's majority ownership stake in CLF, the conservatorship of USC by NCUA, the corresponding National Credit Union Share Insurance Fund (NCUSIF) assistance extended to USC, and the CLF liquidity advance made to the NCUSIF which then advanced the funds to USC. These factors raise reasonable doubt as to the ability and intent of USC to repay CLF's invested funds upon demand as of December 31, 2008. This in turn led to a determination that the amount of the investment (funds held on deposit) should instead be reported within the equity section of the balance sheets as a receivable from shareholder.

In November 2008, the NCUA Board determined that extensions of credit by CLF for other than liquidity needs (OTLN) are in the national economic interest, and requested concurrence of the Board of Governors of the Federal Reserve System and of the Secretary of the Treasury for OTLN lending authority through December 31, 2009. Concurrences were received and CLF began making OTLN-based loans in January 2009 as described in the next paragraph.

The NCUA Board announced two new initiatives for CLF extensions of credit to credit unions for system liquidity needs under the OTLN authority. The two initiatives are the Credit Union System Investment Program (CU SIP), and the Credit Union Homeowners Affordability Relief Program (CU HARP). Funds for both would come from the Federal Financing Bank (FFB).

CLF made loans and loan commitments through a one-time offering of CU HARP of $164,016,217 and through the CU SIP of $4,801,984,000 in January 2009. CLF made further loans and loan commitments through the CU SIP of $2,915,062,000 and $500,000,000 in February 2009 and March 2009, respectively.

In January 2009, the NCUA Board announced two additional actions which provided immediate enhancement to the corporate credit union system's liquidity and capital positions. One of these actions was a temporary National Credit Union Share Insurance Fund (NCUSIF) guarantee of member shares in corporate credit unions, which included CLF's share accounts on deposit with USC. The guarantee covers all shares through December 31, 2010.

On March 19, 2009, the NCUA Board took additional steps to stabilize the corporate credit union system when it placed USC and Western Corporate (WesCorp) Federal Credit Union into conservatorship.

The CLF approved an advance of $10 billion to NCUSIF in order for NCUSIF to make $5 billion in liquidity stabilization loans to both USC and WesCorp. These advances were made on March 23, 2009, for a period of 91 days and maturing on June 22, 2009. Subsequently, on June 22, 2009, the advances were renewed for an additional 182 days maturing on December 21, 2009.

Effective August 3, 2009, CLF transferred its funds from USC to a direct deposit account with the U.S. Treasury and invested them in a laddered portfolio of short-term U.S. Treasury securities.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Inspector General of
National Credit Union Administration:

We have audited the financial statements of the National Credit Union Administration Central Liquidity Facility (CLF) as of and for the year ended December 31, 2008, and have issued our report thereon dated March 15, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered CLF's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CLF's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of CLF's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned function, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness. See finding 2008-01.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Inspector General, the Board of the National Credit Union Administration, and the management of the National Credit Union Administration Central Liquidity Facility and is not intended to be, and should not be, used by anyone other than these specified parties.

Deloitte & Touche LLP

March 15, 2010

FINDING 2008-01

Condition — Effective December 31, 2008, CLF changed its accounting treatment of its funds on deposit with USC and reclassified the funds on deposit with USC to a contra-equity presentation.

Criteria — CLF has followed the guidance in EITF 85-1, *Classifying Notes Receivable for Capital Stock*, as a basis for presenting its funds on deposit with USC as contra-equity. The amounts on deposit represent USC's capital stock balance with CLF; USC, as of December 31, 2008, does not have the intent or ability to repay these funds to CLF within a relatively short period of time.

Effect — This condition results from a deficiency in the design of internal control as CLF did not initially identify the correct treatment of its funds held on deposit with USC.

Cause — As a result of the deterioration of USC's financial condition and the potential uncertainty surrounding USC's ability to immediately repay the funds held on deposit, CLF determined that the economic substance of CLF's funds on deposit with USC had changed.

Monetary Impact — There is no monetary impact associated with this finding.

Recommendation — CLF should review its financial statements for accuracy to ensure the proper presentation of its funds on deposit.

National Credit Union Administration Community Development Revolving Loan Fund

Financial Statements as of and for the
Years Ended December 31, 2008 and 2007, and
Independent Auditors' Reports

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

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INDEPENDENT AUDITORS' REPORT

To the Inspector General of
National Credit Union Administration:

We have audited the accompanying balance sheets of National Credit Union Administration Community Development Revolving Loan Fund (CDRLF) as of December 31, 2008 and 2007, and the related statements of operations, changes in fund balance, and cash flows for the years then ended. These financial statements are the responsibility of the management of CDRLF. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of National Credit Union Administration Community Development Revolving Loan Fund as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2009, on our consideration of CDRLF's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Deloitte & Touche LLP

February 17, 2009

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

BALANCE SHEETS
AS OF DECEMBER 31, 2008 AND 2007

	2008	2007
ASSETS		
CASH AND CASH EQUIVALENTS	$ 5,610,194	$ 2,931,422
LOANS (Note 4)	10,553,512	13,292,065
INTEREST RECEIVABLE	25,620	30,154
TOTAL	$ 16,189,326	$ 16,253,641
LIABILITIES AND FUND BALANCE		
LIABILITIES — Accrued technical assistance	$ 1,267,377	$ 1,308,135
FUND BALANCE:		
Revolving fund capital (Note 3)	13,435,642	13,435,642
Accumulated earnings	1,486,307	1,509,864
Total fund balance	14,921,949	14,945,506
TOTAL	$ 16,189,326	$ 16,253,641

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
SUPPORT AND REVENUES:		
Interest on cash equivalents	$ 35,186	$ 264,661
Interest on loans	123,329	98,113
Appropriation revenue	975,000	940,500
Total support and revenues	1,133,515	1,303,274
EXPENSES:		
Technical assistance	1,157,041	1,436,889
Loan losses (recoveries)	31	(96,992)
Total expenses	1,157,072	1,339,897
EXCESS OF EXPENSES OVER SUPPORT AND REVENUES	$ (23,557)	$ (36,623)

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

STATEMENTS OF CHANGES IN FUND BALANCE
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
FUND BALANCE — Beginning of year	$ 14,945,506	$ 14,982,129
Change in unexpended appropriations:		
Operating appropriations received (Note 3)	975,000	940,500
Appropriation revenue recognized (Note 3)	(975,000)	(940,500)
Excess of expenses over support and revenues	(23,557)	(36,623)
FUND BALANCE — End of year	$ 14,921,949	$ 14,945,506

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of expenses over support and revenues	$ (23,557)	$ (36,623)
Adjustments to reconcile the excess of (expenses over support and revenues) support and revenues over expenses to net cash used in operating activities:		
Change in unexpended appropriations	(975,000)	(940,500)
Changes in assets and liabilities:		
Decrease (increase) in interest receivable	4,534	(12,451)
(Decrease) increase in accrued technical assistance	(40,758)	216,717
Net cash used in operating activities	(1,034,781)	(772,857)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Loan principal repayments	3,088,553	1,853,386
Loan disbursements	(350,000)	(7,758,587)
Net cash provided by (used in) investing activities	2,738,553	(5,905,201)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Appropriations received	975,000	940,500
Net cash provided by financing activities	975,000	940,500
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,678,772	(5,737,558)
CASH AND CASH EQUIVALENTS — Beginning of year	2,931,422	8,668,980
CASH AND CASH EQUIVALENTS — End of year	$ 5,610,194	$ 2,931,422

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

1. NATURE OF ORGANIZATION

The Community Development Revolving Loan Fund for Credit Unions (CDRLF) was established by an act of Congress (Public Law 96-123, November 20, 1979) to stimulate economic development in low-income communities. The National Credit Union Administration (NCUA) and the Community Services Association (CSA) jointly adopted Part 705 of NCUA Rules and Regulations, governing administration of the Fund, on February 28, 1980.

Upon the dissolution of CSA in 1983, administration of CDRLF was transferred to the Department of Health and Human Services (HHS). Because HHS never promulgated final regulations governing the administration of CDRLF, the Fund was dormant.

The Community Development Credit Union Transfer Act (Public Law 99-604, November 6, 1986) transferred CDRLF administration back to NCUA. The NCUA Board adopted amendments to Part 705 of NCUA Rules and Regulations on September 16, 1987, and began making loans/deposits to participating credit unions in 1990.

The purpose of CDRLF is to stimulate economic activities in the communities served by low-income credit unions which will result in increased income, ownership, and employment opportunities for low-wealth residents, and other economic growth. The policy of NCUA is to revolve the loans to qualifying credit unions as often as practical in order to gain maximum impact on as many participating credit unions as possible.

2. SIGNIFICANT ACCOUNTING AND OPERATIONAL POLICIES

Basis of Accounting — CDRLF reports its financial statements on the accrual basis of accounting.

Cash Equivalents — The Federal Credit Union Act permits CDRLF to make investments in United States Government Treasury securities. All investments in 2008 and 2007 were cash equivalents and are stated at cost which approximates fair value. Cash equivalents are highly liquid investments with original maturities of three months or less.

Allowance for Loan Losses — CDRLF records a provision for estimated loan losses. Loans considered to be uncollectible are charged to the allowance for loan losses. Management continually evaluates the adequacy of the allowance for loan losses based upon prevailing circumstances and an assessment of collectibility risk of the total loan portfolio. Accrual of interest is discontinued on non-performing loans when management believes collectibility is doubtful. At December 31, 2008 and 2007, management determined that no allowance for loan losses was necessary.

Salary and Operating Expenses — NCUA provides certain general and administrative support to the CDRLF, including office space, salaries, and certain supplies. The value of these contributed services is not charged to CDRLF.

Revenue Recognition — Appropriation revenue is recognized as the related technical assistance expense is recognized. Total appropriation revenues will differ from total technical assistance expenses because not all technical assistance is funded by appropriations.

Use of Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's estimates.

3. GOVERNMENT REGULATIONS

CDRLF is subject to various Federal laws and regulations. Assistance, which includes lending and technical assistance, is limited by Congress to a total of the $20,515,835 appropriated for CDRLF, plus accumulated earnings. Federally chartered and state-chartered credit unions may participate in CDRLF's Community Loan Fund. Loans may only be made to low-income credit unions as defined by NCUA.

NCUA Rules and Regulations Section 705.7 permit the classification of the loan in the participating credit union's accounting records as either a note payable or a nonmember deposit. As a nonmember deposit, an amount not to exceed $250,000 per credit union is insured by the National Credit Union Share Insurance Fund (NCUSIF). The covered amount of loans recorded as nonmember deposits by participating credit unions insured by the NCUSIF totaled approximately $10,306,351 and $5,790,000 at December 31, 2008 and 2007, respectively. Under the CDRLF Loan Program, loans recorded in the credit union's accounting records as notes payable may be collateralized.

Loans are limited to a maximum amount of $300,000 per credit union. Loans issued after January 1, 2002, carry a fixed rate of 1%. Interest and principal are repaid on a semiannual basis beginning six months and one year, respectively, after the initial distribution of the loan. The maximum term of each loan is five years.

During the years ended December 31, 2008 and 2007, appropriations for technical assistance in the amounts of $975,000 and $940,500, were received for the Federal Government's fiscal years 2008–2009 and 2007-2008, respectively. The amounts were designated to be used as operating appropriations for technical assistance and no amounts were designated to be used as revolving fund capital.

For the appropriations received for technical assistance for the Federal Government's fiscal year 2008-2009, $975,000 expires on September 30, 2009. Appropriations of $975,000 for technical assistance grants are proposed for fiscal 2009–2010.

	2008	2007
Unexpended appropriations:		
Balance — beginning of the year	$ 1,141,442	$ 1,141,442
Operational appropriations received (rescinded)	975,000	940,500
Appropriation revenue recognized	(975,000)	(940,500)
Balance of unexpended appropriations — end of year	$ 1,141,442	$ 1,141,442
Revolving fund capital	$ 13,435,642	$ 13,435,642

4. LOANS

Loans outstanding at December 31, 2008 and 2007, are scheduled to be repaid during the following subsequent years:

	2008	2007
2008	$ -	$ 2,738,295
2009	2,964,967	3,075,324
2010	2,825,455	2,775,356
2011	2,577,106	2,657,106
2012	2,115,984	2,045,984
2013	70,000	-
Loans	$ 10,553,512	$ 13,292,065

5. CONCENTRATION OF CREDIT RISK

At December 31, 2008 and 2007, there are no significant concentrations of credit risk in the loan portfolio. As discussed in Note 1, CDRLF provides loans to credit unions that serve predominantly low-income communities.

6. ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

The following disclosures of the estimated fair value of financial instruments are made in accordance with the requirements of Financial Accounting Standards Board Statement No. 107, *Disclosures about Fair Value of Financial Instruments*. The methods and assumptions used in estimating the fair value disclosures for financial instruments are as follows:

Cash and Cash Equivalents — The carrying amounts for cash and cash equivalents approximate fair values.

Interest Receivable and Accrued Technical Assistance — Such items are recorded at book values, which approximate the respective fair values.

Loans — The fair value is estimated by discounting projected future cash flows using current market interest rates. For purposes of this calculation, the discount rate used was the Treasury Constant Maturity Rate plus two percent (3.04% and 5.26% at December 31, 2008 and 2007, respectively).

The carrying amount and the estimated fair value of the CDRLF's financial instruments are as follows:

	2008		2007	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:				
Cash and cash equivalents	$ 5,610,194	$ 5,610,194	$ 2,931,422	$ 2,931,422
Loans — net	$ 10,553,512	$ 10,046,414	$ 13,292,065	$ 11,817,193
Interest receivable	$ 25,620	$ 25,620	$ 30,154	$ 30,154
Liabilities — accrued technical assistance	$ 1,267,377	$ 1,267,377	$ 1,308,135	$ 1,308,135

It is the intent of CDRLF to hold its loans to maturity. CDRLF anticipates realizing the carrying amount in full. Fair value is less than the carrying amount because loans are made at less than market interest rates.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Inspector General of
National Credit Union Administration:

We have audited the financial statements of the National Credit Union Administration Community Development Revolving Loan Fund (CDRLF) as of and for the year ended December 31, 2008, and have issued our report thereon dated February 17, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered CDRLF's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CDRLF's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of CDRLF's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain matters that we reported to management of CDRLF in a separate letter dated February 17, 2009.

This report is intended solely for the information and use of the Inspector General, the Board of the National Credit Union Administration, and the management of the National Credit Union Administration Community Development Revolving Loan Fund and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

February 17, 2009