NCUA 2009
FINANCIAL STATEMENT AUDITS
FOR

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

For the year ended December 31, 2009

Audited Financial Statements	Audit Report Number
NCUA Operating Fund	OIG-10-09
National Credit Union Share Insurance Fund	OIG-10-10
Central Liquidity Facility	OIG-10-11
Community Development Revolving Loan Fund	OIG-10-12

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 KPMG LLP to perform the financial statement audits of the NCUA Operating Fund, the Share Insurance Fund, the Central Liquidity Facility, and the Community Development Revolving Loan Fund for the year ended December 31, 2009.

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

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

AUDIT RESULTS KPMG LLP expressed unqualified opinions, stating that the financial statements present fairly, in all material respects, the financial position of the NCUA Operating Fund, the Share Insurance Fund, the Central Liquidity Facility, and the Community Development Revolving Loan Fund at December 31, 2009, and the results of operations for the year then ended.

Although KPMG LLP did not express an overall opinion of the Funds’ compliance with laws and regulations, their testing of compliance did not disclose any significant deviations.

National Credit Union Administration Operating Fund

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

NATIONAL CREDIT UNION ADMINISTRATION
OPERATING 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 Administration Operating Fund (the Fund) as of December 31, 2009, and the related statements of revenues, expenses, and 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 Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit. The accompanying financial statements of the Fund as of December 31, 2008, were audited by other auditors whose report thereon dated February 17, 2009, expressed an unqualified opinion on those statements.

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 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 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 Administration Operating 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 April 29, 2010, 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 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

April 29, 2010

NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND

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

	2009	2008
ASSETS		
CASH AND CASH EQUIVALENTS (Note 4)	$24,321	$21,592
DUE FROM NATIONAL CREDIT UNION SHARE INSURANCE FUND (Note 6)	2,258	169
EMPLOYEE ADVANCES	166	91
OTHER ACCOUNTS RECEIVABLE (Note 6)	274	283
PREPAID EXPENSES AND OTHER ASSETS	1,505	4,173
FIXED AND INTANGIBLE ASSETS — Net of accumulated depreciation and amortization (Note 5)	37,503	33,399
TOTAL	$66,027	$59,707
LIABILITIES AND FUND BALANCE		
LIABILITIES:		
Accounts payable	$ 3,036	$ 4,063
Obligations under capital leases (Note 7)	41	300
Accrued wages and benefits	7,109	4,118
Accrued annual leave	9,922	8,907
Accrued employee travel	179	6
Note payable to National Credit Union Share Insurance Fund (Note 6)	18,438	19,779
Total liabilities	38,725	37,173
COMMITMENTS AND CONTINGENCIES (Notes 6, 7, 11 & 12)		
FUND BALANCE (Note 10)	27,302	22,534
TOTAL	$66,027	$59,707

See accompanying notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND

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

	2009	2008
REVENUES:		
Operating fees	$81,679	$72,423
Interest	41	773
Other	544	566
Total revenues	82,264	73,762
EXPENSES, NET (Note 6):		
Employee wages and benefits	58,469	56,030
Travel	8,185	7,505
Rent, communications, and utilities	1,935	1,908
Contracted services	4,119	3,414
Other	4,788	4,755
Total expenses	77,496	73,612
EXCESS OF REVENUES OVER EXPENSES	4,768	150
FUND BALANCE — Beginning of year	22,534	22,384
FUND BALANCE — End of year	$27,302	$22,534

See accompanying notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
OPERATING 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	$ 4,768	$ 150
Adjustments to reconcile excess of revenues over expenses to cash provided by operating activities:		
Depreciation and amortization	2,711	3,181
Provision for loss on disposal of employee residences held for resale	330	283
(Increase) decrease in assets:		
Due from National Credit Union Share Insurance Fund	(2,089)	103
Employee advances	(75)	52
Other accounts receivable	9	(114)
Prepaid expenses and other assets	2,668	(2,857)
(Decrease) increase in liabilities:		
Accounts payable	(1,027)	(153)
Accrued wages and benefits	2,991	893
Accrued annual leave	1,015	332
Accrued employee travel	173	1
Net cash provided by operating activities	11,474	1,871
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of fixed assets	(6,838)	(2,367)
Purchases of employee residences held for sale	(1,258)	(1,286)
Proceeds from sale of employee residences held for resale	951	1,486
Net cash used in investing activities	(7,145)	(2,167)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments on note payable to National Credit Union Share Insurance Fund	(1,341)	(1,341)
Principal payments under capital lease obligations	(259)	(946)
Net cash used in financing activities	(1,600)	(2,287)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,729	(2,583)
CASH AND CASH EQUIVALENTS — Beginning of year	21,592	24,175
CASH AND CASH EQUIVALENTS — End of year	$ 24,321	$ 21,592
CASH PAYMENTS FOR INTEREST	$ 509	$ 807

See accompanying notes to financial statements.

1. ORGANIZATION AND PURPOSE

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

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation — The Fund has historically prepared its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP), based on standards issued by the Financial Accounting Standards Board (FASB), the private sector standards setting body. 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 financial statements prepared based upon standards promulgated by the FASB may also be regarded as in accordance with GAAP for those Federal entities that have issued financial statements based upon FASB standards in the past, which is the case for the Fund. Consistent with historical reporting, the Fund's financial statements are presented in accordance with accounting and financial reporting standards promulgated by the FASB.

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

Related Parties — The Fund exists within the National Credit Union Administration and is one of five funds managed by the NCUA Board. The other funds managed by the Board, deemed related parties, are: a) the National Credit Union Share Insurance Fund (NCUSIF); b) the Temporary Corporate Credit Union Stabilization Fund (TCCUSF); c) Central Liquidity Facility (CLF); and d) the Community Development Revolving Loan Fund (CDRLF). The Fund supports related parties by proving office space, information technology services, and supplies as well as paying employees' salaries and benefits. Certain types of support are reimbursed to the Fund by NCUSIF and CLF based on allocation formulas, as described in Note 6.

Cash Equivalents — Cash equivalents are highly liquid investments with original maturities of three months or less. The Federal Credit Union Act permits the Fund to invest in United States Government securities or securities guaranteed as to both principal and interest by the United States Government. All investments in 2009 and 2008 were cash equivalents and are stated at cost, which approximates fair value.

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

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

Accounts Payable, Accrued Expenses, and Due from Related Parties — The Fund incurs administrative expenses and liabilities for programs pertaining to related parties that are controlled by the NCUA Board. Year-end balances of accounts payable and accrued expenses include amounts related to the NCUSIF and the CLF. Therefore, unreimbursed administrative expenses related to these entities are recognized as receivables in the accompanying financial statements.

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

Operating Fees — Each federally chartered credit union is assessed an annual fee based on their assets as of the preceding thirty-first day of December. The fee is designed to cover the costs of providing administration and service to the Federal Credit Union System. The Fund recognizes this operating fee revenue ratably over the year.

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

Leases — Operating leases are entered into for the acquisition of office space and equipment as part of administering NCUA's program. The cost of operating leases is recognized on the straight-line method over the life of the lease and includes, if applicable, any reductions resulting from incentives such as rent holidays. The same method is used to recognize income from operating leases. Certain office space leases are subject to escalations in rent, as described in Note 7.

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 related parties, employee advances, other accounts receivable, accounts and notes payable to NCUSIF, and other accounts payable are recorded at book values, which approximate their respective fair values.

Use of Estimates — The preparation of financial statements in conformity with 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 liabilities at the date of the financial statements and the reported amounts of revenues and expenses incurred during the reporting period. Significant estimates include the determination of the FECA liability, certain computer software asset values, and if there is any determination of a long-lived asset impairment, the related measurement of the impairment charge.

Reclassifications — Certain amounts in the prior year's financial statements have been reclassified to conform to the current year presentation.

3. NEWLY IMPLEMENTED ACCOUNTING STANDARDS

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles.* SFAS No. 168 established the FASB Accounting Standards Codification (ASC) as the source of authoritative accounting principles recognized by the FASB to be applied by entities in the preparation of financial statements in conformity with U.S. GAAP.

Effective December 31, 2009, the Fund adopted FASB ASC 855, Subsequent Events (precodification FASB SFAS No. 165, *Subsequent Events*). FASB ASC 855 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. FASB ASC 855 defines the period after the balance sheet date during which management shall evaluate events or transactions that may occur for potential recognition or disclosure, which entails both the circumstances under which an organization shall recognize events occurring after the balance sheet date and the disclosures that an organization shall make about those events or transactions. FASB ASC 855 defines two types of subsequent events. The first type consists of events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements (i.e., a nonrecognized event).

4. CASH AND CASH EQUIVALENTS

The Fund's cash and cash equivalents at December 31, 2009 and 2008 are as follows (in thousands):

	2009	2008
Deposit with U.S. Treasury	$ 513	$ 1,249
U.S. Treasury overnight investments	23,808	20,343
Total	$ 24,321	$ 21,592

5. FIXED AND INTANGIBLE ASSETS

Fixed and intangible assets are comprised of the following at December 31, 2009 and 2008 (in thousands):

	2009	2008
Office building and land	$ 43,595	$ 43,358
Furniture and equipment	15,676	13,501
Equipment under capital leases	152	2,782
Assets under construction	4,441	1,000
Total	63,864	60,641
Less accumulated depreciation and amortization	(26,361)	(27,242)
Fixed and intangible assets — net	$ 37,503	$ 33,399

Furniture and equipment includes computer software acquired externally and developed internally. The carrying value and accumulated amortization of computer software as of December 31, 2009 and 2008 were $4,401,000 and $1,972,000, and $2,285,000 and $1,312,000, respectively. Amortization expense for the years ended December 31, 2009 and 2008 totaled $660,000 and $401,000, respectively.

Accumulated amortization balances for equipment under capital leases as of December 31, 2009 and 2008 were $111,000 and $2,523,000 respectively. Amortization expense for the years ended December 31, 2009 and 2008 totaled $230,000 and $870,000, respectively.

Assets under construction primarily represents developmental costs incurred from the customization of software purchased from external vendors for internal use. This includes the federal financial accounting system that was implemented in January 2010.

6. RELATED PARTY TRANSACTIONS

(a) Transactions with the National Credit Union Share Insurance Fund (NCUSIF)

Certain administrative services are provided by the Fund to NCUSIF. The Fund charges NCUSIF for these services based upon an annual allocation factor approved by the NCUA Board and derived from a study of actual usage. The allocation factor was 53.8% to NCUSIF for 2009 and 52.0% for 2008. The cost of the services allocated to NCUSIF, which totaled approximately $90,244,000 and $79,385,000 for 2009 and 2008, respectively, is reflected as a reduction of the corresponding expenses in the accompanying financial statements. These transactions are settled monthly. At December 31, 2009 and 2008, amounts due from NCUSIF, under this allocation method, totaled $2,258,000 and $169,000, respectively.

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 $509,000 and $807,000 for 2009 and 2008, respectively. The note payable balances at December 31, 2009 and 2008 were approximately $18,438,000 and $19,779,000, 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, 2009 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	11,733
Total	$ 18,438

(b) Transactions with the Central Liquidity Facility (CLF)

Certain administrative services are provided by the Fund to the CLF. The Fund pays CLF's employee salaries and related benefits as well as CLF's portion of building and operating costs. Reimbursements of these expenses are determined by applying a ratio of CLF full-time equivalent employees to the NCUA total, with settlement and payment occurring quarterly. All other CLF reimbursement expenses are paid annually. The costs of the services provided to the CLF were approximately $334,000 and $259,000 for 2009 and 2008, respectively, and are reflected as a reduction of the corresponding expenses in the accompanying financial statements.

Other accounts receivable include approximately $145,000 and $110,000 of amounts due from the CLF as of December 31, 2009 and 2008, respectively.

(c) Support of the Community Development Revolving Loan Fund (CDRLF)

The Fund supports the administering of programs under the CDRLF by paying related personnel and other associated costs. This estimation of administrative costs include salaries, employee benefits, travel, training, telephone, supplies, printing, and postage.

For the years ending December 31, 2009 and 2008, administrative support to CDRLF is estimated at (in thousands):

	2009	2008
Employee	$ 242	$ 213
Other	12	12
Total	$ 254	$ 225

(d) Federal Financial Institutions Examination Council (FFIEC)

The NCUA is one of the five federal agencies that fund FFIEC operations. Under FFIEC's charter, NCUA's Chairman is appointed as a Member. The FFIEC was established on March 10, 1979 as a formal interagency body empowered to prescribe uniform principles, standards, and report forms for the federal examination of financial institutions by the National Credit Union Administration, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision, and to make recommendations to promote uniformity in the supervision of financial institutions. Additionally, FFIEC provides training to staff of member agencies, which are charged based on use. For the years ended December 31, 2009 and 2008, FFIEC assessments total $760,000 and $816,000, respectively. FFIEC's 2010 budgeted assessments for NCUA total $854,000.

7. 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 leasing 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 $1,089,000 and $923,000, of which approximately $586,000 and $480,000 were reimbursed by NCUSIF for 2009 and 2008, respectively. In addition, the Fund leases laptop computers and other office equipment under operating leases with lease terms that expire through 2012.

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

The future minimum lease payments as of December 31, 2009, before reimbursements, are as follows (in thousands):

Years Ending December 31	Operating Leases	Capital Leases
2010	$ 1,760	$ 17
2011	1,897	17
2012	1,128	7
2013	512	
2014	125	
Total	$ 5,422	$ 41

Based on the allocation factor approved by the NCUA Board for 2009, NCUSIF is expected to reimburse the Fund for approximately 53.8% of the future operating lease payments.

8. RETIREMENT PLANS

Eligible employees of the Fund are covered by federal government retirement plans, either the Civil Service Retirement System (CSRC) or the Federal Employees Retirement System (FERS). Both plans are defined benefit retirement plans covering all of the employees of the Fund. FERS is comprised of a Social Security Benefits Plan, a Basic Benefits Plan, and a Savings Plan. Contributions to the plans are based on a percentage of an employee's gross pay. Under the Savings Plan, employees may also elect additional contributions up to $16,500 in 2009, and the Fund will match up to 5% of the employee's gross pay. In 2009 and 2008, the Fund's contributions to the plans were approximately $14,021,000 and $12,768,000, respectively, of which approximately $7,543,000 and $6,639,000, respectively, were reimbursed by NCUSIF.

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

9. 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 FASB ASC No. 825, *Disclosures about Fair Value of Financial Instruments*. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The 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 equivalent financial instruments approximate fair values. Cash equivalents are U.S. Treasury overnight investments.

Due from NCUSIF —The carrying amount for the due from NCUSIF approximates fair value.

Employee Advances —The carrying amounts for receivables from employees approximate fair values.

Obligation under capital lease —The carrying amounts for the remaining obligations owed on capital leases approximate fair values.

Note payable to NCUSIF — The carrying amount for the note payable to NCUSIF approximates fair value.

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

	December 31, 2009		December 31, 2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 24,321	$ 24,321	$ 21,592	$ 21,592
Due from NCUSIF	2,258	2,258	169	169
Employee advances	166	166	91	91
Obligation under capital lease	41	41	300	300
Note payable to NCUSIF	18,438	18,438	19,779	19,779

10. FUND BALANCE AND RETAINED EARNINGS APPROPRIATION

In 2006, the NCUA Board established an appropriation of the fund balance in an effort to more transparently disclose and communicate to stakeholders earnings which were necessary for major projects that could not be accrued or would not warrant inclusion in the annual operating expense budget. The initial appropriation of $1,000,000 was for repairs and maintenance on NCUA's Alexandria headquarters building.

For the years ending December 31, 2009 and 2008, retained earnings appropriation is estimated at (in thousands):

	2009	2008
Fund balance (excluding retained earnings appropriation)	$ 26,302	$ 21,534
Retained earnings appropriation	1,000	1,000
Total fund balance	$ 27,302	$ 22,534

11. 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.

12. COLLECTIVE BARGAINING AGREEMENT

The NCUA has a collective bargaining agreement with the National Treasury Employees Union (NTEU) that became effective on January 11, 2008. NTEU is the exclusive representative of approximately 80% of NCUA employees. This agreement shall remain in effect for a period of three years from its effective date and shall be automatically renewable for additional one year periods unless either party notifies the other party, in writing, at least 60 days, but not more than 120 days, prior to the expiration date of this agreement of its intention to renegotiate this agreement; the first notification period starts September 13, 2010 and ends November 12, 2010.

13. SUBSEQUENT EVENTS

Subsequent events have been evaluated through April 29, 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.

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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 Administration Operating Fund (the Fund) as of December 31, 2009, and the related statements of revenues, expenses, and 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 April 29, 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 Fund is responsible for establishing and maintaining effective internal control. In planning and performing our fiscal year 2009 audit, we considered the Fund's internal control over financial reporting by obtaining an understanding of the Fund'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 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.

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.

In our fiscal year 2009 audit, we identified certain individual and collective deficiencies in internal control over financial reporting that we consider to be a material weakness, described in Exhibit I.

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

We noted certain additional matters that we have reported to management of the Fund in a separate letter dated April 29, 2010

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

KPMG LLP

April 29, 2010

Exhibit I

NATIONAL CREDIT UNION ADMINITRATION –
OPERATING FUND

MATERIAL WEAKNESS

Introduction

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

Improvements Needed in Financial Accounting and Reporting Process

The Fund has historically followed several accounting policies and practices that are not in accordance with U.S. generally accepted accounting principles (herein after referred to as non-GAAP policies). The Fund's management had neither identified nor documented and evaluated non-GAAP policies to determine their financial statement impact in the current and future reporting periods. For example, the Fund recorded the workers' compensation liability on a pay-as-you-go method. The pay-as-you-go method did not take into consideration the probable and estimable future payments (i.e., the actuarial component contemplated by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 712, *Determining the Timing and Method of Accruing Other Postemployment Benefits)* and thus failed to capture both the "life-of-claim costs" and an estimate of any amounts incurred-but-not-reported (IBNR). Upon further analysis, NCUA determined that its $112,000 workers' compensation liability determined using the pay-as-you-go method was $2.1 million less than the $2.3 million actuarial liability estimated using the Department of Labor calculation model for small Federal agencies. Other instances of non-GAAP polices that the Fund's management had not identified, included policies that had lower impact than the workers' compensation liability, related to fixed and intangible assets and lease accounting. In addition to recording adjusting entries to properly reflect the workers' compensation liability, the Fund also acknowledged and recognized entries to reduce asset balances, adjust lease transactions, and modify certain other accounts. The largest quantified difference of these items was less than $400,000.

Further, the Fund does not have sufficiently comprehensive policies and procedures that document internal control activities and monitoring functions that should be embedded and/or performed within the financial accounting and reporting process. Additionally, the Fund 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 financial reporting. For example, we noted:

> (i) A lack of documentation of control activities. The Fund 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. Several journal entries we tested, including cut-off and manual entries that required management judgment, were estimated without consideration of key pertinent and available data. We also noted a key person dependency, as almost all manual journal entries we tested were recorded by one individual.
>
> (ii) Difficulties encountered by management in providing support for key reported items in the financial statements. One specific example was account reconciliations that were not readily available, despite such reconciliations being noted as completed in management's Federal Management Financial Integrity Act (FMFIA) certifications.
>
> (iii) Ineffective comprehensive financial statement reviews. The reviews performed by the Fund's management were not performed at a level of detail that would reasonably detect or identify financial statement errors and missing disclosures and, in part, the individuals performing the

review did not possess adequate training and/or institutional expertise that would enable effective performance of such reviews. One specific example was lack of appropriate identification of related parties and inadequate disclosure of related party relationships.

We believe that lack of comprehensive policies and procedures and monitoring functions contributed to the audit adjustments recognized during our audit, and if they persist, the situation could lead to inconsistent application of processes and breakdown in internal control activities across the Fund that could lead to material financial statement.

The FMFIA requires that agencies establish internal controls according to standards prescribed by the Comptroller General and specified in the GAO *Standards for Internal Control in the Federal Government* (GAO Standards). These standards define internal control as an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. GAO Standards state that internal controls should generally be designed to assure that on-going monitoring occurs in the course of normal operations. 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.

This deficiency represents a material weakness.

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 FMFIA criteria 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 a formal process to regularly update the Fund's policies and procedures when significant operational and accounting pronouncement changes occur. Where transactions are similar across the NCUA, it may be advantageous to prepare combined accounting policies.

- Assess those areas of operations in which non-GAAP policies may be prevalent.

    i) Create a log or otherwise sufficiently document all existing and newly identified non-GAAP policies and practices.

NATIONAL CREDIT UNION ADMINITRATION –
OPERATING FUND

MATERIAL WEAKNESS

ii) Annually evaluate non-GAAP policies and practices to determine the impact of such policies in the current and future reporting periods.

- Update the NCUA Rules and Regulations or prepare a supplemental manual to ensure that internal controls are documented, implemented, and periodically evaluated and monitored to mitigate operational and financial accounting and reporting risks. In certain areas, similar processes may exist and function across multiple NCUA funds and offices. Thus, management could take maximum advantage of leveraging related controls across the various funds.

- Develop and implement policies and procedures to:
  i) Require review and approval of all journal entries by an appropriate individual other than the person generating the entry; and
  ii) Assign documented accountability for supervisory reviews either electronically through system access or manually through hard copy sign-off.

- Implement policies and procedures to appropriately estimate the financial statement impact of transactions that are accounted for on a preliminary or tentative basis or develop procedures to capture data that is not otherwise received on a current basis so that reasonable accruals are made.

- Establish formal policies and procedures regarding supervisory reviews of financial statements and related supporting documentation to ensure that all significant and relevant missing disclosures are identified and financial statement errors are identified and corrected in a timely manner.

Exhibit II

NATIONAL CREDIT UNION ADMINISTRATION
OPERATING 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 Operating Fund's financial accounting and reporting processes. While these findings represent a small segment of the Fund's activities, NCUA agrees that they warrant management's attention.

We believe the findings can best be categorized as:

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

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

1. 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.

2. Lack of documentary evidence of supervisory review, especially over journal entries where a single person dependency exists:

   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. The cited findings are primarily with non-payment related journal entries (e.g., accruals) and have been previously assessed by management as a low risk. Large non-recurring and unusual entries are verbally discussed. Controls around payment related transactions are considered a higher risk and do include segregation of duties, multiple levels of supervisory reviews, and cash reconciliations. 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.

3. 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. Although our policies and procedures are not unified, they include an online directives library of approximately 230 subject areas, written policies for key areas, staff desk procedures, a procurement manual, a travel manual, among other instructional documents. Additionally, we have evidenced our policy research on emerging items, such as accounting for the implementation of our new financial management system, the taxation of gifts, and guarantees. 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.

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 Administration Operating Fund (the Fund) as of December 31, 2009, and the related statements of revenues, expenses, and 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 April 29, 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 Fund is responsible for complying with laws, regulations, and contracts applicable to the Fund. As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of the Fund'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 Fund. 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, the Fund's management, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

April 29, 2010

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.

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

Deloitte.

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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 Statement as of and for the
Year Ended December 31, 2009

And Independent Auditors' Reports

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY
As of and for the Year Ended December 31, 2009
(Dollars in thousands, except share data)

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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 Administration Central Liquidity Facility (CLF) as of December 31, 2009, and the related statements of operations, members' equity, and cash flows for the year then ended (hereinafter referred to as "financial statements"). These financial statements are the responsibility of the CLF's management. Our responsibility is to express an opinion on these financial statements based on our 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 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 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 Administration Central Liquidity Facility 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 April 28, 2010, on our consideration of the CLF's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audit.

KPMG LLP

April 28, 2010

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY
As of December 31, 2009
(Dollars in thousands, except share data)

BALANCE SHEET

		2009
ASSETS		
Cash and cash equivalents (notes 4 and 6)	$	5,900
Investments held to maturity (Net of $2,169 amortized discount, fair value of $1,832,955) (notes 5 and 6)		1,828,831
Loans to members (notes 6 and 7)		8,312,751
Loan to related party (notes 6 and 12)		10,000,000
Accrued interest receivable		23,591
TOTAL	$	20,171,073
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES:		
Accounts payable and other liabilities	$	171
Dividends payable		1,375
Federal Financing Bank notes payable (notes 6 and 11)		18,312,751
Accrued interest payable		23,561
Member deposits (notes 6 and 9)		363
Total liabilities		18,338,221
MEMBERS' EQUITY		
Capital stock – required ($50 par value; authorized: 72,749,116 shares; issued and outstanding: 36,374,558 shares) (note 8)		1,818,728
Retained earnings		14,124
Total members' equity		1,832,852
TOTAL	$	20,171,073

See accompanying notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY
For the Year Ended December 31, 2009
(Dollars in thousands, except share data)

STATEMENT OF OPERATIONS

		2009
REVENUE:		
Investment income	$	21,468
Interest on loans		85,649
Gain on sale of investments		43
Total revenue:		107,160
EXPENSES: (note 12)		
Personnel services		205
Personnel benefits		48
Other general and administrative expenses		81
Total operating expenses		334
Interest – Federal Financing Bank notes payable (note 11)		85,649
Interest – liquidity reserve		7
Total expenses		85,990
NET INCOME	$	21,170

See accompanying notes to financial statements.

(Dollars in thousands, except share data)

STATEMENT OF MEMBERS' EQUITY

	Capital Stock				
	Shares	**Amount**	**Shareholder Loan**	**Retained Earnings**	**Total**
BALANCE – December 31, 2008	34,154,171	$ 1,707,710	(1,719,574)	11,408	$ (456)
Issuance of required capital stock	2,221,840	111,092			111,092
Redemption of required capital stock	(1,453)	(74)			(74)
Repayment of shareholder loan (note 8)			1,719,574		1,719,574
Dividends declared ($0.51/share) (notes 8 and 9)				(18,454)	(18,454)
Net income				21,170	21,170
BALANCE – December 31, 2009	36,374,558	$1,818,728	-	14,124	$1,832,852

See accompanying notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY
For the Year Ended December 31, 2009
(Dollars in thousands, except share data)

STATEMENT OF CASH FLOWS

	2009
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income	$ 21, 170
Adjustments to reconcile net income to net cash provided by operating activities:	
Increase in accrued interest receivable	(8,922)
Increase in accounts payable and other liabilities	21,445
Net cash provided by operating activities	33,693
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of investments	(1,828,831)
Loan principal disbursements - net	(16,727,273)
Net cash used in investing activities	(18,556,104)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Issuance of required capital stock	111,092
Dividends paid (notes 8 and 9)	(29,448)
Redemption of required capital stock	(74)
Withdrawal of member deposits	(719)
Repayment of shareholder loan	1,719,574
Additions to member deposits	596
Proceeds from FFB borrowings - net	16,727,273
Net cash provided by financing activities	18,528,294
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,883
CASH AND CASH EQUIVALENTS– Beginning of year	17
CASH AND CASH EQUIVALENTS – End of year	5,900
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION – Cash paid during the year for interest	$ 64,250

See accompanying 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 subject to various Federal laws and regulations. CLF's operating budget requires Congressional approval, and CLF may not make loans to members for the purpose of expanding credit union loan portfolios. CLF's investments are restricted to obligations of the U.S. Government and its agencies, deposits in federally insured financial institutions, and shares and deposits in credit unions. Borrowing is limited by statute to 12 times the subscribed capital stock and surplus.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation — CLF has historically prepared its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP), based on standards issued by the Financial Accounting Standards Board (FASB), the private-sector standards-setting body. 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 financial statements prepared based upon standards promulgated by the FASB may also be regarded as in accordance with GAAP for those Federal entities, such as the CLF, that have issued financial statements based upon FASB standards in the past. Accordingly, consistent with historical reporting, the CLF's financial statements are presented in accordance with accounting and financial reporting standards promulgated by the FASB.

(b) **Basis of Accounting —** CLF maintains its accounting records on the accrual basis of accounting. CLF recognizes loans when they are issued and related repayments when they are received. CLF records investment transactions when they are made. CLF recognizes borrowings when they are received and repayments when they are made. In addition, CLF recognizes interest on loans and interest on investments when they are earned and recognizes interest on borrowings when it is incurred. CLF recognizes expenses when incurred. CLF accrues and records dividends on capital stock monthly and pays dividends quarterly.

(c) **Use of Estimates** — The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets 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.

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

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

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

(f) **Loans and Allowance for Loan Losses** — Loans, when made to members, are on a short-term or long-term basis. Loans are recorded at the amount disbursed and bear interest at the higher of: (1) the Federal Financing Bank advance rate, or (2) the Federal Reserve Bank discount window Primary Credit rate. By regulation, member liquidity needs loans are made on a fully secured basis. CLF obtains a security interest in the assets of the borrower equal to at least 110 percent of all amounts due. For member loans issued under the Credit Union System Investment Program (CU SIP) and Credit Union Homeowners Affordability Relief Program (CU HARP), CLF obtains a security interest in the assets of the borrower equal to 200 percent of the amount due under the program. CLF does not currently charge fees associated with its lending activities. In determining the allowance for loan losses, when applicable, CLF evaluates the collectability of its loans to members through examination of the financial condition of the individual borrowing credit unions and the credit union industry in general.

CLF management reviews the allowance for loan losses annually. A loan is considered impaired if it is probable that CLF will not collect all principal and interest actually due. The impairment is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate. CLF does not accrue interest when a loan is considered impaired. When ultimate collectability of the principal balance of the impaired loan is in doubt, all cash receipts on the impaired loan are applied to reduce the principal of such loan until the principal has been recovered and are recognized as interest income thereafter. Impairment losses are charged against the allowance and increases in the allowance are charged to bad debt expense. Loans are written off against the allowance when all possible means of collection have been exhausted and the potential for recovery is considered remote. There was no allowance and no past due loans at December 31, 2009, and there were no write offs for fiscal year 2009. CLF management considers write offs remote because all member loans must be collateralized with a minimum of 110 percent of the outstanding amount.

(g) **Borrowings —** CLF's borrowings are recorded when received and do not have premiums or discounts.

(h) **Tax-Exempt Status —** CLF is exempt from tax in accordance with section 312 of the Federal Credit Union Act (FCU) - 12 U.S.C. §1795k.

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

The National Credit Union Share Insurance Fund (NCUSIF) is also a related party. CLF has the statutory authority to advance funds to the NCUSIF and advances were made in 2009 (note 12).

(Dollars in thousands, except share data)

3. RECENTLY ISSUED ACCOUNTING STANDARDS

Effective December 31, 2009 CLF adopted FASB issued Statement of Financial Accounting Standards (SFAS) No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles.* SFAS No. 168 established the FASB Accounting Standards Codification (ASC) as the sole source of authoritative accounting principles recognized by the FASB to be applied by nonpublic entities in the preparation of financial statements in conformity with GAAP (the GAAP hierarchy).

Effective December 31, 2009, CLF adopted FASB ASC 855, *Subsequent Events* (precodification FASB SFAS No. 165, *Subsequent Events*). FASB ASC 855 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. FASB ASC 855 defines the period after the balance sheet date during which management shall evaluate events or transactions that may occur for potential recognition or disclosure, the circumstances under which an organization shall recognize events occurring after the balance sheet date and the disclosures that an organization shall make about those events or transactions. FASB ASC 855 defines two types of subsequent events. The first type consists of events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements (i.e., nonrecognized event).

4. CASH AND CASH EQUIVALENTS

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

	2009
U.S. Treasury Securities	$ 5,261
USC Daily Transaction Share Account	622
PNC Bank	17
Total	$ 5,900

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

5. INVESTMENTS

The carrying amount, gross unrealized holding gains, gross unrealized losses and the fair value of held-to-maturity debt securities at December 31, 2009 were as follows:

	Carrying Amount	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
U.S. Treasury Securities:	$1,828,831	4,335	(211)	1,832,955
Total	$1,828,831	4,335	(211)	1,832,955

Maturities of debt securities classified as held-to-maturity were as follows at December 31, 2009:

(Dollars in thousands, except share data)

	Carrying Amount		Fair Value	
Due in one year or less	$	993,122	$	994,036
Due after one year through five years		832,721		836,083
Due after five years through ten years		2,988		2,836
Total	$	1,828,831	$	1,832,955

6. **FAIR VALUE MEASUREMENTS —** FASB ASC 825, *Financial Instruments*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following methods and assumptions were used in estimating the fair value disclosures for financial instruments:

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

Investments held to maturity — The fair value for investments is determined using the quoted market prices at the reporting date (observable inputs).

Loans — For loans advanced to member credit unions and the loan to related party, the carrying amounts approximate fair value because all loans have a maturity of one year or less.

Federal Financing Bank Notes Payable — For notes issued to the Federal Financing Bank (FFB), when applicable, the carrying amounts approximate fair value because all borrowings have a maturity of one year or less.

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 therefore carrying amounts approximate the fair value.

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

Financial Instruments	Carrying Value		Fair Value	
Cash and cash equivalents	$	5,900	$	5,900
Investments held to maturity		1,828,831		1,832,955
Loans to members		8,312,751		8,312,751
Loan to related party		10,000,000		10,000,000
Accrued interest receivable		23,591		23,591
Accounts payable and other liabilities		171		171
Dividends payable		1,375		1,375
Federal Financing Bank notes payable		18,312,751		18,312,751
Accrued interest payable		23,561		23,561
Member Deposits		363		363

7. **LOANS TO MEMBERS**

CLF has in place form documents that reflect the repayment, security, and credit reporting terms applicable to all CLF loans. CLF makes loan disbursements through the corporate credit union network and relies on members of the corporate network to service loans it has made. CLF relies on USC as its agent, as master servicer for all loans;

(Dollars in thousands, except share data)

USC relies on the appropriate corporate credit union as its agent to service loans owed by its natural person credit union members. CLF requires each corporate credit union acting as loan servicer to subordinate any claims it might have in the collateral owned by natural person credit unions that may have been pledged to secure an advance from the corporate.

In January 2009, the NCUA Board changed the methodology by which CLF funded natural person credit union loans by modifying the agreement between CLF and USC and creating a new assignment agreement between CLF and USC. This change was effective for all CLF loans made after January 20, 2009. Prior to the changes, loan proceeds were passed through USC to the corporate credit union and ultimately to the natural person credit union. Loan documents were signed at each level such that the natural person credit union borrower was indebted to its corporate credit union which, in turn was indebted to USC, which in turn was obligated to repay the advance to the CLF. The NCUA Board approved streamlining this relationship so that the indebtedness of the natural person credit union to the CLF is direct.

During 2009, the NCUA Board obtained concurrence from the Secretary of the Treasury and the Board of Governors of the Federal Reserve System on its determination that extensions of credit to members of CLF for purposes other than the statutorily defined liquidity needs are in the national economic interest with the understanding that extensions of credit will not be made or used for a purpose that conflicts with the FCU Act. CLF began making other than liquidity needs (OTLN) based loans in January 2009.

The two initiatives for other than liquidity needs (OTLN) lending are the Credit Union System Investment Program (CU SIP), and the Credit Union Homeowners Affordability Relief Program (CU HARP). There were 3 offering periods for CU SIP and one offering period for CU HARP. Funds for both programs come from the FFB borrowings. The loan amounts, maturity dates, and interest rates are presented following.

	Amount	Maturity Date	Interest Rate
CU SIP 1	$ 4,801,984	1/8/2010	0.5650%
CU SIP 2	2,915,062	2/12/2010	0.7060%
CU SIP 3	500,000	3/12/2010	0.8290%
CU HARP	95,705	12/31/2010	0.5740%
Total	$ 8,312,751		

As of December 31, 2009, $4,897,689 in loans to members was due from USC for the first CU SIP offering (CU SIP 1) and the CU HARP and $3,415,062 was due from natural person credit unions.

8. CAPITAL STOCK

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

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

(Dollars in thousands, except share data)

During fiscal year 1984, CLF accepted a membership request from USC on behalf of its corporate credit union members. At December 31, 2009 $1,750,551 of CLF capital stock was purchased by USC on behalf of its member corporate credit union members. USC has 26 corporate credit union members as of December 31, 2009.

A member of CLF whose capital stock account constitutes less than five percent of the total capital stock outstanding may withdraw from membership in CLF six months after notifying the NCUA Board of its intention to do so. A member whose capital stock account constitutes five percent or more of the total capital stock outstanding may withdraw from membership in CLF twenty-four months after notifying the NCUA Board of its intention. At December 31, 2009, CLF had one member withdrawal request of $128 pending.

The required capital stock is redeemable upon demand by the members. The redemption is not mandatory, as defined in FASB ASC 480-10-25-7, *Mandatorily Redeemable Financial Instruments*; therefore capital stock is classified in permanent equity.

CLF's capital stock accounts are composed of the following at December 31, 2009:

	Shares	Amount
Regular members	1,363,531	$ 68,177
Agent members	35,011,027	1,750,551
Total	36,374,558	$ 1,818,728

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

During 2009, USC paid in full an outstanding shareholder loan.

9. MEMBER DEPOSITS

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

10. CONCENTRATION OF CREDIT RISK

At December 31, 2009, CLF had a concentration of credit risk for its loans to USC of approximately $4,897,689.

In January 2009, the NCUA Board announced two additional actions which provided immediate enhancement to the corporate credit union system's liquidity and capital positions. One of these actions was a temporary NCUSIF guarantee of member shares in corporate credit unions. The guarantee covers all shares through December 31, 2010 and included CLF's deposit in the USC Daily Transaction Share Account.

11. BORROWING AUTHORITY

CLF is authorized by statute to borrow, from any source, an amount not to exceed 12 times its subscribed capital stock and surplus. Until October 1, 2008, Congress, through the appropriations process, placed a limit on gross obligations at $1.5 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. As of December 31, 2009, CLF's statutory borrowing authority was $43,818,955.

CLF borrows exclusively from the 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. Advances made under the current promissory note cannot exceed $25,000,000 and cannot mature later than March 31, 2011. During 2009, CLF borrowed amounts totaling $18,537,962 from FFB under twenty-five separate loan agreements, which it, in turn, loaned to member credit unions. The amounts owed to the FFB at December 31, 2009 totaled $18,312,751. At December 31, 2009, CLF had $6,687,249 available capacity to borrow under its current promissory note and such funds are available through March 31, 2010.

At December 31, 2009 CLF was in compliance with its borrowing authority.

12. RELATED PARTY TRANSACTIONS

NCUA's OF pays CLF's employees' salaries and benefits as well as CLF's portion of monthly building and operating costs. Expenses are allocated by applying the ratio of CLF full-time equivalent employees to the NCUA total. These expenses are reimbursed to NCUA quarterly. All other CLF reimbursement expenses are paid annually. The total amount charged by the NCUA was approximately $334 for the year ended December 31, 2009. As of December 31, 2009, accounts payable and other liabilities include approximately $145 due to the NCUA's OF for services provided.

On March 19, 2009, the NCUA Board took steps to stabilize the corporate credit union system when it placed USC and Western Corporate Federal Credit Union (WesCorp) into conservatorship. CLF entered into a Funding Commitment and Agreement and a Short-Term Revolving Promissory Note on March 20, 2009, to fund $20,000,000 with a final maturity date of any advance at December 31, 2010. There was $10,000,000 remaining on this commitment as of December 31, 2009. CLF approved an advance of $10,000,000 to NCUSIF in order for NCUSIF to make $5,000,000 in liquidity stabilization loans to both USC and WesCorp. This advance was made on March 23, 2009, for a period of 91 days, maturing on June 22, 2009 and on June 22, 2009, the advance was renewed for an additional 182 days maturing on December 21, 2009. On December 21, 2009, the advance was renewed again for an additional 365 days maturing on December 21, 2010. The advance bears interest at a rate of 0.5280% per annum.

13. SUBSEQUENT EVENTS

Management evaluated all events and transactions that occurred after December 31, 2009 through April 28, 2010, the date CLF issued these financial statements. In March 2010, CLF renewed its promissory note with the FFB. The available capacity under the renewed promissory note is $25,000,000 and the funds are available through March 31, 2011.

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 Administration Central Liquidity Facility (CLF) as of December 31, 2009, and the related statements of operations, members' equity, and cash flows for the year then ended (hereinafter referred to as "financial statements"), and have issued our report thereon dated April 28, 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 CLF is responsible for establishing and maintaining effective internal control. In planning and performing our fiscal year 2009 audit, we considered the CLF's internal control over financial reporting by obtaining an understanding of the CLF's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements. 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 CLF's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the CLF's internal control over financial reporting.

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.

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

This report is intended solely for the information and use of the addressees, the CLF'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

April 28, 2010

Exhibit I

**NATIONAL CREDIT UNION ADMINITRATION –
CENTRAL LIQUIDITY FACILITY**

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 recommendation thereon. The Central Liquidity Facility (CLF) management's response to this finding is presented in Exhibit II. Exhibit III presents the status of the prior year material weakness.

CLF Should Improve and Formalize Processes and Controls Over the Preparation of the Financial Statements, Especially with Respect to the Statement of Cash Flows and the Statement of Members' Equity

During our review of the CLF's draft financial statements for the year ended December 31, 2009, we noted that the statement of cash flows and statement of members' equity presented in the financial statements contained omissions and misclassifications, as follows:

- The statement of cash flows did not include approximately $5.9 million in movement related to cash equivalents.
- The statement of cash flows did not separately disclose the cash collection of a shareholder loan in the amount of $1.7 billion (a financing activity), but instead showed this transaction netted against the purchase of U.S. Treasury securities in the amount of $1.8 billion (an investing activity with a different counterparty).
- The supplemental disclosure of cash flow information – cash paid during the year for interest did not include interest paid to the Federal Financing Bank (FFB) in the amount of approximately $64 million.
- The statement of members' equity and notes to the financial statements did not disclose the members' capital stock account shares and changes thereof as required by the authoritative guidance.

Based on discussions with CLF management, the statement of cash flows and statement of members' equity presented in the draft financial statements for the year ended December 31, 2009 were prepared following the processes established in prior years. CLF has historically not presented share information on the balance sheet, statement of members' equity, or the related note disclosures.

In fiscal year 2009 CLF changed a significant part of its business activity. From inception to August 2009, the CLF invested its cash balances with its majority shareholder, the U.S. Central Federal Credit Union (USC). Historically, these transactions were accounted for as investments in the balance sheet and investing activities in the statement of cash flows. However, in August 2009, CLF redeemed its USC investments and invested the proceeds with the U.S. Treasury. This change in business activity, coupled with the presentation of investments with USC on the December 31, 2008 balance sheet as a shareholder loan (i.e., a contra equity account), caused the transaction to be misclassified in the 2009 statement of cash flows.

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) sets forth the presentation requirements for the statement of cash flows. FASB ASC 230-10-45 states, in part, the following:

> 45-4 A statement of cash flows shall explain the change during the period in cash and cash equivalents… The total amounts of cash and cash equivalents at the beginning and end of the period shown in the

> statement of cash flows shall be the same amounts as similarly titled line items or subtotals shown in the statements of financial position as of those dates.
>
> 45-26 …[B]oth investing cash inflows and outflows and financing cash inflows and outflows shall be reported separately in a statement of cash flows—for example, outlays for acquisitions of property, plant, and equipment shall be reported separately from proceeds from sales of property, plant, and equipment; proceeds of borrowings shall be reported separately from repayments of debt; and proceeds from issuing stock shall be reported separately from outlays to reacquire the entity's stock.

Additionally, FASB ASC 505-10-50-2, *Equity Disclosures*, states the following:

> 50-2 If both financial position and results of operations are presented, disclosure of changes in the separate accounts comprising shareholders' equity (in addition to retained earnings) and of the changes in the number of shares of equity securities during at least the most recent annual fiscal period…presented is required to make the financial statements sufficiently informative. Disclosure of such changes may take the form of separate statements or may be made in the basic financial statements or notes thereto.

The omissions and misclassifications noted above were in contravention of the aforementioned U.S. generally accepted accounting principles (GAAP). Management made the appropriate corrections to the draft statement of cash flows and the statement of members' equity to present them in accordance with such GAAP in the issued version of the financial statements.

This deficiency represents a significant deficiency.

Recommendations

We recommend that the CLF management enhance the process used to prepare the statement of cash flows to ensure that the FASB ASC 230-10-45 guidance is followed. This would include adding steps for management to evaluate any new types of transactions and changes in operations to assure such items are properly considered and presented in accordance with GAAP.

We also recommend that management enhance the process used to prepare the statement of members' equity to ensure that the FASB ASC 505-10-50 guidance is followed.

National Credit Union Administration

Exhibit II

April 28, 2010

KPMG LLP
2001 M Street, N.W.
Washington, DC 20036

Dear Sirs:

In conjunction with your audit of the financial statements of the National Credit Union Central Liquidity Facility (CLF) as of December 31, 2009, you provided CLF with a *Notice of Finding and Recommendation*. You recommended that the CLF currently revise, and prospectively enhance the process used to prepare the statement of cash flows and statement of members' equity to address certain deficiencies.

CLF management agrees with the *Notice of Finding and Recommendation* and has made changes to the 2009 statement of cash flows and statement of members' equity to address the deficiencies. Additionally, CLF has changed the business processes used to prepare the statement of cash flows to consider new types of transactions and operations to ensure such items are properly considered and presented in accordance with generally accepted accounting principles.

Sincerely,

J. Owen Cole

President J. Owen Cole, Jr.
Central Liquidity Facility

Exhibit III

NATIONAL CREDIT UNION ADMINITRATION – CENTRAL LIQUIDITY FACILITY

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 Administration's Central Liquidity Facility (CLF) accounting of its funds on deposit at U.S. Central Federal Credit Union (USC).

Current Year Status of the Prior Year Material Weakness

During fiscal year 2009, CLF replaced its funds on deposit at USC with U.S. Treasury securities. Certain related 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 Administration Central Liquidity Facility (CLF) as of December 31, 2009, and the related statements of operations, members' equity, and cash flows for the year then ended (hereinafter referred to as "financial statements"), and have issued our report thereon dated April 28, 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 CLF is responsible for complying with laws, regulations, and contracts applicable to the CLF. As part of obtaining reasonable assurance about whether the CLF's financial statements are free of material misstatement, we performed tests of the CLF's compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contracts applicable to the CLF. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests of compliance 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, the CLF'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

April 28, 2010

National Credit Union Administration

Community Development
Revolving Loan Fund

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

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

TABLE OF CONTENTS

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 Administration Community Development Revolving Loan Fund (CDRLF) 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 CDRLF's management. Our responsibility is to express an opinion on these financial statements based on our audit. The accompanying financial statements of the CDRLF as of December 31, 2008, were audited by other auditors whose report thereon dated February 17, 2009, expressed an unqualified opinion on those statements.

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 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 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 Administration Community Development Revolving Loan 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 February 17, 2010, on our consideration of the CDRLF's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audit.

KPMG LLP

February 17, 2010

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

BALANCE SHEETS
AS OF DECEMBER 31, 2009 AND 2008

	2009	2008
ASSETS		
Cash and cash equivalents (Note 4)	$8,949,290	5,610,194
Loans receivable (Notes 6, 7, and 8)	8,818,487	10,553,512
Interest receivable (Note 8)	19,193	25,620
Total	$17,786,970	16,189,326
LIABILITIES AND FUND BALANCE		
LIABILITIES — Accrued technical assistance (Notes 8 and 11)	$1,604,064	1,267,377
Commitments and contingencies (Note 11)		
FUND BALANCE:		
Fund capital	14,637,777	13,435,642
Accumulated earnings	1,545,129	1,486,307
Total fund balance (Note 5)	16,182,906	14,921,949
Total	$17,786,970	16,189,326

See accompanying notes to the financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
SUPPORT AND REVENUES:		
Interest on cash and cash equivalents (Notes 4 and 8)	$4,066	35,186
Interest on loans (Note 8)	102,584	123,329
Appropriation revenue (Note 5)	1,000,000	975,000
Total support and revenues	1,106,650	1,133,515
EXPENSES:		
Technical assistance	1,049,778	1,157,041
Provision for loan losses	(1,950)	31
Total expenses	1,047,828	1,157,072
NET INCOME (LOSS)	$58,822	(23,557)

See accompanying notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

STATEMENTS OF CHANGES IN FUND BALANCE
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	Fund Capital				
	For Loans	For Technical Assistance	Total Fund Capital	Accumulated Earnings	Total Fund Balance
December 31, 2007	$13,387,777	47,865	13,435,642	1,509,864	14,945,506
Appropriations received (Note 5)	-	975,000	975,000	-	975,000
Appropriations expended	-	(975,000)	(975,000)	-	(975,000)
Net loss	-	-	-	(23,557)	(23,557)
December 31, 2008	$13,387,777	47,865	13,435,642	1,486,307	14,921,949
Appropriations received (Note 5)	-	2,250,000	2,250,000	-	2,250,000
Appropriations expended	-	(1,000,000)	(1,000,000)	-	(1,000,000)
Appropriations expired	-	(47,865)	(47,865)	-	(47,865)
Net income	-	-	-	58,822	58,822
December 31, 2009	$13,387,777	1,250,000	14,637,777	1,545,129	16,182,906

See accompanying notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009 and 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income (Loss)	$58,822	(23,557)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Approriation revenue recognized	(1,000,000)	(975,000)
Changes in assets and liabilities:		
Decrease in interest receivable	6,427	4,534
Increase (Decrease) in accrued technical assistance	336,687	(40,758)
Net cash used in operating activities	(598,064)	(1,034,781)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Loan principal repayments	4,323,025	3,088,553
Loan disbursements	(2,588,000)	(350,000)
Net cash provided by investing activities	1,735,025	2,738,553
CASH FLOWS FROM FINANCING ACTIVITIES:		
Appropriations received 2008/2009	-	975,000
Appropriations received 2009/2010	1,000,000	-
Appropriations received 2010/2011	1,250,000	-
Appropriations expired	(47,865)	-
Net cash provided by financing activities	2,202,135	975,000
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,339,096	2,678,772
CASH AND CASH EQUIVALENTS — Beginning of year	5,610,194	2,931,422
CASH AND CASH EQUIVALENTS — End of year	$8,949,290	5,610,194

See accompanying notes to financial statements

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 CDRLF, on February 28, 1980.

Upon the dissolution of CSA in 1983, administration of CDRLF was transferred to the Department of Health and Human Services (HHS). From 1983 through 1990, the Fund was dormant.

The Community Development Credit Union Transfer Act (Public Law 99-609, November 6, 1986) transferred CDRLF administration back to NCUA. The NCUA Board adopted amendments to Part 705 of NCUA Rules and Regulations on September 16, 1987, and began making loans and deposits to participating credit unions in 1990.

The purpose of CDRLF is to stimulate economic activities in the communities served by low-income credit unions, which is expected to result in increased income, ownership, and employment opportunities for low-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 in conformity with accounting principles generally accepted in the United States of America.

Cash Equivalents — The Federal Credit Union Act permits CDRLF to make investments in United States Government Treasury securities. All investments in 2009 and 2008 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 based on historical loss experience. A provision for loans considered to be uncollectible is charged to the income statement when such losses are probable and reasonably estimable. Provisions for significant uncollectible amounts are credited to an allowance for loan losses, while de minimis amounts are directly charged-off or recovered. Management continually evaluates the adequacy of the allowance for loan losses based upon prevailing circumstances and an assessment of collectability risk of the total loan portfolio. On the basis of this analysis, no allowance for loan losses was necessary at December 31, 2009 and 2008. Accrual of interest is discontinued on non-performing loans when management believes collectability is doubtful.

Overhead 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. Interest income on cash equivalents and on loans is recognized when earned.

Expense Recognition – Technical assistance expense is recognized when the CDRLF makes a formal commitment to the recipient credit union for technical assistance.

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.

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

3. NEWLY IMPLEMENTED ACCOUNTING STANDARDS

Effective December 31, 2009 CDRLF adopted the Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles.* SFAS No. 168 established the FASB Accounting Standards Codification (ASC) as a sole source of authoritative accounting principles recognized by the FASB to be applied by nonpublic entities in the preparation of financial statements in conformity with GAAP (the GAAP hierarchy).

4. CASH AND CASH EQUIVALENTS

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

	2009	**2008**
Deposit with U.S. Treasury	$ 3,949,290	1,410,194
U.S. Treasury Overnight Investments	5,000,000	4,200,000
Total Investments	$ 8,949,290	5,610,194

5. 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 $16,182,906 appropriated to date for CDRLF, which includes accumulated earnings. Federally chartered or state-chartered credit unions with a low-income designation are eligible to participate in CDRLF's loan and technical assistance program.

During the year ended December 31, 2009, CDRLF received appropriations for technical assistance in the amount of $2,250,000: $1,000,000 for the Federal Government's fiscal years 2009–2010, with no rescission; and, $1,250,000 for the Federal Government's fiscal years 2010-2011 with no rescission.

During the year ended December 31, 2008, CDRLF received appropriations for technical assistance in the amount of $975,000 for the Federal Government's fiscal years 2008–2009, with no rescission.

These amounts were designated to be used for technical assistance and no amounts were designated to be used as revolving fund capital.

Appropriations in the amount of $47,865 from fiscal years 2003 and 2004 were remitted to the U.S. Treasury in 2009 upon expiration.

For the appropriations received for technical assistance for the Federal Government's fiscal year 2009-2010, $1,000,000 expires on September 30, 2010, and $1,250,000 expires on September 30, 2011.

6. LOANS RECEIVABLE

Loans outstanding at December 31, 2009 and 2008, are scheduled to be repaid during the following subsequent years:

	2009	2008
2009	$ -	2,964,967
2010	2,743,464	2,825,455
2011	2,752,384	2,577,106
2012	2,354,916	2,115,984
2013	513,800	70,000
2014	453,923	-
Loans outstanding	8,818,487	10,553,512
Allowance for loan losses	-	-
Total loans receivable	$8,818,487	10,553,512

NCUA Rules and Regulations Section 705.7 permit the classification of the loan in the participating credit union's accounting records as 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 aggregate amount of uninsured loans totaled $293,910 at December 31, 2009, and $247,161 at December 31, 2008.

Loans are limited to a maximum amount of $300,000 per credit union. Per NCUA policy, loans issued after January 1, 2002, carry a fixed rate of 1%. Interest and principal are to be 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.

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

7. CONCENTRATION OF CREDIT RISK

At December 31, 2009 and 2008, there are no significant geographic or individual counterparty concentrations of credit risk in the loan portfolio. As discussed in note 1, CDRLF provides loans to credit unions that serve predominantly low-income communities.

8. 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 FASB ASC No. 825, *Disclosures about Fair Value of Financial Instruments*. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The 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 receivable — The fair value is estimated by discounting projected future cash flows based on benchmark interest rates. For purposes of this calculation, the discount rate used was the U.S. Treasury constant maturity rate for similar maturities plus a two percent risk premium: 3.64% at December 31, 2009 and 3.04% at December 31, 2008.

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

	Carrying Amount	Estimated Fair Value
Assets:		
Cash and cash equivalents	$ 8,949,290	$ 8,949,290
Loans receivable	$ 8,818,487	$ 8,310,773
Interest receivable	$ 19,193	$ 19,193
Liabilities — accrued technical assistance	$1,604,064	$ 1,604,064

9. OVERHEAD EXPENSES

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

For the years ending December 31, 2009 and 2008, the NCUA through the Operating Fund, paid the following overhead expenses on behalf of the CDRLF:

	2009	2008
Employee	$ 242,223	212,934
Other	12,303	12,070
	$ 254,526	225,004

10. SUBSEQUENT EVENTS (FAS 165, ASC 855)

Subsequent events have been evaluated through February 17, 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.

11. COMMITMENTS AND CONTINGENCIES

As of December 31, 2009, the CDRLF has the following outstanding commitments:

Loans approved but not yet disbursed:	$	-
Technical assistance approved but not yet disbursed:	$	1,604,064

In accordance with the terms of such agreements, and as a condition for eventual disbursement, the borrower or technical assistance recipient may be required to satisfy specified contractual criteria. Loan commitments are not recognized until the loan agreement has been signed.

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 Administration Community Development Revolving Loan Fund (CDRLF) 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 February 17, 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 CDRLF is responsible for establishing and maintaining effective internal control. In planning and performing our fiscal year 2009 audit, we considered the CDRLF's internal control over financial reporting by obtaining an understanding of the CDRLF's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements. 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 CDRLF's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the CDRLF's internal control over financial reporting.

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.

In our fiscal year 2009 audit, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness, described in Exhibit I, and another deficiency that we consider to be a significant deficiency, described in Exhibit II.

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

We noted a certain additional matter that we have reported to CDRLF management in a separate letter dated February 17, 2010.

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

KPMG LLP

February 17, 2010

Exhibit I

NATIONAL CREDIT UNION ADMINITRATION –
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

MATERIAL WEAKNESS

Introduction

This exhibit describes the material weakness noted during our audit as of and for the year ended December 31, 2009, and our recommendations thereon. The Community Development Revolving Loan Fund (CDRLF) management's response to this finding is presented in Exhibit III.

Improvements Needed in Management's Review Procedures Over the Cash Handling and Reconciliation Process

CDRLF records cash disbursements when the request for funds is submitted to the U.S. Department of the Treasury (U.S. Treasury), as opposed to when the funds are transferred to the recipients (i.e., custody of cash is relinquished), which is not in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) financial assets de-recognition standard. CDRLF management indicated that they recorded disbursements at the time checks were requested from the U.S. Treasury in order to track the use of funds. As a result, the cash and accounts payable balances were understated by approximately $55,000 at December 31, 2009. Management recorded an adjusting entry to properly reflect the cash and accrued technical assistance liability account balances in the financial statements.

In addition, CDRLF did not record the Congressional appropriation for the federal fiscal year 2010/2011, which was received on December 30, 2009. The National Credit Union Administration Office of the Chief Financial Officer (OCFO) prepared the agency wide reporting to and reconciliation of transactions and balances with the U.S. Treasury (the reconciliation) and provided the reconciliation to the fund supervisor to reconcile with the fund general ledger. The CDRLF supervisor did not utilize the section of the reconciliation that documented the U.S. Treasury balance for CDRLF and therefore did not realize that CDRLF had not recorded the Congressional appropriation for the federal fiscal year 2010/2011. As a result, the cash and fund balance (i.e., operating appropriations received) were understated by $1,250,000 at December 31, 2009. Management recorded an adjusting entry to properly reflect the cash and fund balance in the financial statements.

This deficiency represents a material weakness.

Recommendations

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

- Record cash disbursements when the funds are mailed to the recipients (i.e., when custody of cash is relinquished and other de-recognition criteria are satisfied).
- Record cash receipts when appropriations are received.
- Perform appropriate account reconciliation procedures.
- Make source documents available to the fund supervisor to ensure that out-of-balance errors are detected and corrected.

Exhibit II

NATIONAL CREDIT UNION ADMINITRATION –
COMMUNITY DEVELOPMENT REVOLVING LOAN 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 Community Development Revolving Loan Fund (CDRLF) management's response to this finding is presented in Exhibit III.

Improvements Needed in Management's Review Procedures Over the Financial Accounting and Reporting Process

CDRLF does not have formal policies and procedures that require secondary reviews and approvals of the financial statements and related supporting documentation. The supervisory reviews performed were not effective in identifying missing disclosures and financial statement errors. For example, the draft financial statements prepared for the year ended December 31, 2009 did not disclose the new accounting standard that should have been implemented in fiscal year 2009, the Statement of Financial Accounting Standards (SFAS) No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles,* (FASB ASC) and the FASB ASC references for the standards applicable to CDRLF. Further, the amount disclosed in the fair value note for cash and cash equivalents did not agree with the corresponding amount on the balance sheet.

In addition, CDRLF 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.

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. OMB Circular No. A-123 states the following:

> Policies and Procedures - Developing a written strategy for internal agency use may help ensure that appropriate action is taken throughout the year to meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA) of 1982 as codified in 31 U.S.C. 3512.
>
> Separation of Duties and Supervision – Key duties and responsibilities in authorizing, processing, recording, and reviewing official agency transactions should be separated among individuals. Managers should exercise appropriate oversight to ensure individuals do not exceed or abuse their assigned authorities.
>
> Recording and Documentation – Transactions should be promptly recorded, properly classified and accounted for in order to prepare timely accounts and reliable financial and other reports. The documentation for transactions, management controls, and other significant events must be clear and readily available for examination.

Without effective policies and procedures in place, there is an increased risk of material misstatements to the financial statements and related disclosures.

Exhibit II

**NATIONAL CREDIT UNION ADMINITRATION –
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND**

SIGNIFICANT DEFICIENCY

Recommendations

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

- Establish formal policies and procedures requiring supervisory review of financial statements and related supporting documentation to ensure that all significant and relevant missing disclosures are identified and financial statement errors are identified and corrected in a timely manner.

- Develop and implement policies and procedures to:

  i) Require review and approval of all journal entries by an appropriate individual other than the person generating the entry (we acknowledge that the limited number of staff may pose challenges and that a broad solution may ultimately be necessary); and

  ii) Assign documented accountability for supervisory reviews either electronically through system access or manually through hard copy sign-off.

Exhibit III

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

MANAGEMENT RESPONSE TO AUDIT FINDINGS

CDRLF Finding 09-01: Cash and Cash Equivalents

CDRLF Management generally agrees with the auditors' findings. Management has implemented policy and procedure changes and has taken corrective action to include the following:

Effective with the February 2010 statement, the CDRLF business process was amended so that cash receipts and disbursements are recorded in accordance with Generally Accepted Accounting Principles. The business process was also amended effective January 1, 2010, with the implementation of the Delphi-Oracle accounting system: the CDRLF will be responsible for separately producing and reconciling its treasury cash reports.

CDRLF Finding 09-03: Management's Review Procedures Over the Financial Accounting

CDRLF Management generally agrees with the auditors' findings. Management has implemented policy and procedure changes and has taken corrective action to include the following:

The CDRLF will establish procedures which require Supervisory review and approval of financial statements, journal entries, and supporting documentation.
Further, effective with the conversion of the agency's accounting system to Delphi-Oracle, secondary review requirements are programmed into the online accounting system, thus required.

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 Administration Community Development Revolving Loan Fund (CDRLF) 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 February 17, 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 CDRLF is responsible for complying with laws, regulations, contracts, and grant agreements applicable to the CDRLF. As part of obtaining reasonable assurance about whether the CDRLF's financial statements are free of material misstatement, we performed tests of the CDRLF's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the CDRLF. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our 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, CDRLF's management, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

February 17, 2010