NCUA 2010
FINANCIAL STATEMENT AUDITS
FOR

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

For the year ended December 31, 2010

Audited Financial Statements	Audit Report Number
Operating Fund	OIG-11-02
Central Liquidity Facility	OIG-11-03
Community Development Revolving Loan Fund	OIG-11-04
Share Insurance Fund	OIG-11-05

May 12, 2011

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 Central Liquidity Facility, the Community Development Revolving Loan Fund, and the Share Insurance Fund for the year ended December 31, 2010.

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 Central Liquidity Facility, the Community Development Revolving Loan Fund, and the Share Insurance Fund at December 31, 2010, and the results of operations for the year then ended.

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

National Credit Union Administration Operating Fund

Financial Statements as of and for the Years Ended December 31, 2010 and 2009, and Independent Auditors' Reports

NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND

TABLE OF CONTENTS

KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

Independent Auditors' Report on Financial Statements

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

We have audited the accompanying balance sheets of the National Credit Union Administration Operating Fund (the Fund) as of December 31, 2010 and 2009 and the related statements of revenues, expenses, and changes in fund balance, and cash flows (hereinafter referred to as "financial statements") for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Credit Union Administration Operating Fund as of December 31, 2010 and 2009 and its statement of operations, changes in fund balance, and statements of cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our reports dated February 15, 2011, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audits.

KPMG LLP

February 15, 2011

NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND

BALANCE SHEETS
AS OF DECEMBER 31, 2010 AND 2009
(Dollars in thousands)

	2010	2009
ASSETS		
CASH AND CASH EQUIVALENTS (Note 4)	$32,645	$24,321
DUE FROM NATIONAL CREDIT UNION SHARE INSURANCE FUND (Note 8)	2,857	2,258
EMPLOYEE ADVANCES	50	166
OTHER ACCOUNTS RECEIVABLE (Note 8)	349	274
PREPAID EXPENSES AND OTHER ASSETS	1,371	1,010
ASSETS HELD FOR SALE (Note 7)	696	495
FIXED ASSETS — Net of accumulated depreciation of $23,330 and $22,282 as of December 31, 2010 and 2009, respectively (Note 5)	31,673	30,203
INTANGIBLE ASSETS — Net of accumulated amortization of $6,441 and $4,079 as of December 31, 2010 and 2009, respectively (Note 6)	5,945	7,300
TOTAL	$75,586	$66,027
LIABILITIES AND FUND BALANCE		
LIABILITIES:		
Accounts payable	$5,043	$3,036
Obligations under capital leases (Note 9)	24	41
Accrued wages and benefits	8,581	7,109
Accrued annual leave	11,401	9,922
Accrued employee travel	532	179
Notes payable to National Credit Union Share Insurance Fund (Note 8)	17,097	18,438
Total liabilities	42,678	38,725
COMMITMENTS AND CONTINGENCIES (Notes 8, 13 & 14)		
FUND BALANCE (Note 12)	32,908	27,302
TOTAL	$75,586	$66,027

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, 2010 AND 2009
(Dollars in thousands)

	2010	2009
REVENUES:		
Operating fees	$ 86,754	$ 81,679
Interest	63	41
Other	1,234	544
Total revenues	88,051	82,264
EXPENSES, NET (Note 8):		
Employee wages and benefits	59,379	58,469
Travel	9,163	8,185
Rent, communications, and utilities	1,773	1,935
Contracted services	6,194	4,119
Other	5,936	4,788
Total expenses	82,445	77,496
EXCESS OF REVENUES OVER EXPENSES	5,606	4,768
FUND BALANCE—Beginning of year	27,302	22,534
FUND BALANCE—End of year	$ 32,908	$ 27,302

See accompanying notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(Dollars in thousands)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of revenues over expenses	$ 5,606	$ 4,768
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Depreciation and amortization	5,154	2,711
Provision for loss on disposal of employee residences held for sale	244	330
Loss on fixed asset retirements	380	-
(Increase) decrease in assets:		
Due from National Credit Union Share Insurance Fund	(599)	(2,089)
Employee advances	116	(75)
Other accounts receivable	(75)	9
Prepaid expenses and other assets	(361)	2,668
(Decrease) increase in liabilities:		
Accounts payable	2,007	(1,027)
Accrued wages and benefits	1,472	2,991
Accrued annual leave	1,479	1,015
Accrued employee travel	353	173
Net cash provided by operating activities	15,776	11,474
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of fixed assets	(5,649)	(6,838)
Purchases of employee residences held for sale	(1,386)	(1,258)
Proceeds from sale of employee residences held for sale	941	951
Net cash used in investing activities	(6,094)	(7,145)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of notes payable to National Credit Union Share Insurance Fund	(1,341)	(1,341)
Principal payments under capital lease obligations	(17)	(259)
Net cash used in financing activities	(1,358)	(1,600)
NET INCREASE IN CASH AND CASH EQUIVALENTS	8,324	2,729
CASH AND CASH EQUIVALENTS—Beginning of year	24,321	21,592
CASH AND CASH EQUIVALENTS—End of year	$ 32,645	$ 24,321
CASH PAYMENTS FOR INTEREST	$ 397	$ 509

See accompanying notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND

NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

1. ORGANIZATION AND PURPOSE

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

Cash Equivalents – Cash equivalents are highly liquid investments with original maturities of three months or less. The Federal Credit Union Act permits the Fund to invest in United States Government securities or securities with both principal and interest guaranteed by the United States Government. All investments in 2010 and 2009 were cash equivalents and are stated at cost, which approximates fair value.

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

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

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

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

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

Accounts Receivable – Receivables include employee travel advances, and amounts due from the NCUSIF and CLF. Amounts are stated at face value, as there have been no historical losses and there are no anticipated losses.

Accounts Payable– The Fund incurs administrative expenses and liabilities for programs pertaining to related parties that are controlled by the NCUA Board. Accruals are made as expenses are incurred.

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

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

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

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

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

Fair Value of Financial Instruments – The following method and assumption was used in estimating the fair value disclosures for financial instruments:

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

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

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

Advertising Costs – Per FASB ASC 720-35-50, *Other Expenses - Advertising Costs* consist primarily of radio and Internet advertisements. Advertising costs are expensed as incurred. The Fund enters into certain contracts for the purpose of advertising. In 2010 and 2009, advertising expenses amounted to approximately $1,434,000 and $0, respectively.

3. NEWLY IMPLEMENTED ACCOUNTING STANDARDS

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

4. CASH AND CASH EQUIVALENTS

The Fund's cash and cash equivalents as of December 31, 2010 and 2009 are as follows (in thousands):

	2010	**2009**
Deposit with U.S. Treasury	$ 104	$ 513
U.S. Treasury Overnight Investments	32,541	23,808
Total	$ 32,645	$ 24,321

As a revolving fund within the U.S. Treasury, the Operating Fund (OF) maintains a Fund Balance with Treasury (FBWT) and does not hold cash outside of Treasury.

5. FIXED ASSETS

Fixed assets, including furniture and equipment, are comprised of the following as of December 31, 2010 and 2009 (in thousands):

	2010	2009
Office building and land	$ 45,039	$ 43,595
Furniture and equipment	8,996	8,698
Equipment under capital leases	141	152
Total	54,176	52,445
Less accumulated depreciation	(23,330)	(22,282)
Assets under construction	827	40
Fixed assets — net	$ 31,673	$ 30,203

Depreciation expense for the years ended December 31, 2010 and 2009 totaled $2,076,000 and $2,051,000, respectively.

Assets under construction primarily represent costs to improvements to the King Street NCUA Headquarters office space.

6. INTANGIBLE ASSETS

Intangible assets are comprised of the following as of December 31, 2010 and 2009 (in thousands):

	2010	2009
Internal-Use software	$ 10,276	$ 6,508
Less accumulated amortization	(6,441)	(4,079)
Total	3,835	2,429
Internal-Use software-in development	2,110	4,871
Intangible assets — net	$ 5,945	$ 7,300

Internal-use software is computer software that is either acquired externally or developed internally. Amortization expense for the years ended December 31, 2010 and 2009 totaled $3,078,000 and $660,000, respectively.

Internal-use software that is in development represents costs incurred from the customization of software purchased from external vendors for internal use. This includes the Federal financial accounting system that was partially implemented in January 2010, the Management Allocation Resource System examination time budgeting system to be implemented in the near future, and the online 5300 system to be implemented during 2011.

7. ASSETS HELD FOR SALE

Real estate available for sale purchased by the Fund is from employees enrolled in the agency's home purchase program who are unable to sell their homes in a specified time period. It is the agency's intent to dispose of these properties as quickly as possible. Sales of homes are generally expected to occur within one year, pending market forces. Currently, the Fund owns three homes. Ongoing costs to maintain properties are expensed as incurred. The balance of real estate available for sale as of December 31, 2010 and 2009 was $696,000 and $495,000, respectively.

8. RELATED PARTY TRANSACTIONS

(a) Transactions with NCUSIF

Certain administrative services are provided by the Fund to NCUSIF. The Fund charges NCUSIF for these services based upon an annual allocation factor approved by the NCUA Board and derived from a study of actual usage. The allocation factor was 100% of the expenses of the Office of Corporate Credit Unions to the extent that it exceeds the actual operating fees paid by Federal corporate credit unions, plus 57.2% of all other expenses to NCUSIF for 2010 and 53.8% for 2009. The cost of the services allocated to NCUSIF, which totaled approximately $113,584,000 and $90,244,000 for 2010 and 2009, respectively, is reflected as a reduction of the corresponding expenses in the accompanying financial statements. These transactions are settled monthly. As of December 31, 2010 and 2009, amounts due from NCUSIF, under this allocation method, totaled $2,857,000 and $2,258,000, respectively.

In 1992, the Fund entered into a commitment to borrow up to $41,975,000 in a 30-year secured term note with NCUSIF. The monies were drawn as needed to fund the costs of constructing a building in 1993. Interest costs incurred were $397,000 and $509,000 for 2010 and 2009, respectively. The notes payable balances as of December 31, 2010 and 2009 were approximately $17,097,000 and $18,438,000, respectively. The current portion of the long term debt is $1,341,000 for both December 31, 2010 and 2009.

The variable rate on the note is equal to NCUSIF's prior-month yield on investments. The average interest rates during 2010 and 2009 were 2.24% and 2.56%, respectively. The interest rates as of December 31, 2010 and 2009 were 2.14% and 2.06 %, respectively.

The secured term note requires principal repayments as of December 31, 2010 as follows (in thousands):

Years Ending December 31	**Secured Term Note**
2011	$ 1,341
2012	1,341
2013	1,341
2014	1,341
2015	1,341
Thereafter	10,392
Total	$ 17,097

(b) Transactions with CLF

Certain administrative services are provided by the Fund to CLF. The Fund pays CLF's employee salaries and related benefits, as well as CLF's portion of building and operating costs. Reimbursements of these expenses are determined by applying a ratio of CLF full-time equivalent employees to the NCUA total, with settlement and payment occurring quarterly. All other CLF reimbursement expenses are paid annually. The costs of the services provided to CLF were approximately $483,000 and $334,000 for December 31, 2010 and 2009, respectively, and are reflected as a reduction of the corresponding expenses in the accompanying financial statements.

Other accounts receivable include approximately $183,000 and $145,000 of amounts due from the CLF as of December 31, 2010 and 2009, respectively.

(c) Support of CDRLF

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

For the years ending December 31, 2010 and 2009, administrative support to CDRLF is estimated at (in thousands):

	2010	**2009**
Employee	$ 387	$ 242
Other	16	12
Total	$ 403	$ 254

(d) Federal Financial Institutions Examination Council (FFIEC)

NCUA is one of the five Federal agencies that fund FFIEC operations. Under FFIEC's charter, NCUA's Chairman is appointed as a Member. FFIEC was established on March 10, 1979 as a formal inter-agency body empowered to prescribe uniform principles, standards, and report forms for the Federal examination of financial institutions by NCUA, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision. FFIEC was also established to make recommendations to promote uniformity in the supervision of financial institutions. Additionally, FFIEC provides training to staff employed by Member agencies; the Member agencies are charged for these trainings based on use. For the years ended December 31, 2010 and December 31, 2009, FFIEC assessments totaled $873,000 and $760,000, respectively. FFIEC's 2011 budgeted assessments to NCUA total $852,000.

(e) Support of TCCUSF

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

For the years ending December 31, 2010 and 2009, administrative support to TCCUSF is estimated at $5,858,000 and $114,000 respectively.

(f) Real Estate Available for Sale

The Fund purchases homes from employees enrolled in the agency's home purchase program who are unable to sell their homes in a specified time period, as mentioned in Note 7.

9. LEASE COMMITMENTS

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

Operating Leases – The Fund leases certain of NCUA's office space under lease agreements that run through 2015. Office rental charges amounted to approximately $566,000 and $1,089,000, of which approximately $324,000 and $586,000 were reimbursed by NCUSIF for 2010 and 2009, respectively. In addition, the Fund leases laptop computers and other office equipment under operating leases with lease terms that run through 2012.

Capital Leases – The Fund leases copier equipment under lease agreements that run through 2012.

The future minimum lease payments to be paid over the next five years as of December 31, 2010, before reimbursements, are as follows (in thousands):

Years Ending December 31	Operating Leases	Capital Leases
2011	$ 1,921	$ 18
2012	1,348	6
2013	805	-
2014	448	-
2015	379	-
Thereafter	-	-
Total	$ 4,901	$ 24

Based on the allocation factor approved by the NCUA Board for 2010, NCUSIF is expected to reimburse the Fund for approximately 57.2% of the future operating lease payments.

As a lessor, the Fund holds operating lease agreements with three tenants, each of whom rents a portion of the Fund's building for retail space. The leases carry five year terms with escalating rent payments. The last of these leases is set to expire in 2015.

The future minimum lease payments to be received from these non-cancelable operating leases at December 31, 2010 are as follows (amounts in thousands):

Years Ending December 31	Rent Payments
2011	$ 549
2012	541
2013	553
2014	495
2015	72
Thereafter	-
Total	$ 2,210

10. RETIREMENT PLANS

Eligible employees of the Fund are covered by Federal Government retirement plans—either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). Both plans are defined benefit retirement plans covering all of the employees of the Fund. FERS is comprised of a Social Security Benefits Plan, a Basic Benefits Plan, and a Savings Plan. Contributions to the plans are based on a percentage of an employee's gross pay. Under the Savings Plan, employees may also elect additional contributions up to $16,500 in 2010, and the

Fund will match up to 5% of the employee's gross pay. In 2010 and 2009, the Fund's contributions to the plans were approximately $15,775,000 and $14,021,000, respectively, of which approximately $9,024,000 and $7,543,000, respectively, was allocated to NCUSIF.

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

11. FAIR VALUE MEASUREMENTS

The following disclosures of the estimated fair values are made in accordance with the requirements of FASB ASC 825, *Financial Instruments* and FASB ASC 820 *Fair Value Measurements and Disclosures.* Fair value is the amount that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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

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

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

The following table presents the carrying amounts and established fair values (in thousands) of the Fund's assets held for sale as of December 31, 2010 and 2009. The impairment charges are recorded within the excess of revenues over expenses and represent non-recurring fair value measures.

	2010			2009		
	Amortized Cost Basis	**Aggregate Fair Value**	**Total Impairment Charges for 2010**	**Amortized Cost Basis**	**Aggregate Fair Value**	**Total Impairment Charges for 2009**
Assets held for sale	$ 696	$ 696	$ 164	$ 495	$ 495	$ 55

Assets held for sale – Assets held for sale represents residences from relocating employees, and is presented at fair value. The fair value measurement recorded during the period includes pending purchase contracts, the lower of list prices or appraisals if less than six months old (if no pending purchase contracts exist), or recent market analyses (if no recent list prices or appraisals are readily available). Additionally, the fair value incorporates an estimated 10 percent reduction in the fair value to recognize realtor, closing, and other costs. The Fund believes that these measurements fairly reflect the most current valuation of the assets. Accordingly, the Fund uses level 3 inputs to measure the fair value of these investments. Unrealized losses relating to these assets are reported in the income statement.

The carrying values approximate the fair values of certain financial instruments as of December 31, 2010 and 2009 were as follows (in thousands):

	2010		**2009**	
	Carrying Amount	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Cash and cash equivalents	$32,645	$32,645	$24,321	$24,321
Due from NCUSIF	2,857	2,857	2,258	2,258
Employee advances	50	50	166	166
Obligation under capital lease	24	24	41	41
Notes payable to NCUSIF	17,097	17,097	18,438	18,438

Cash and Cash Equivalents – The carrying amounts for cash and cash equivalents financial instruments approximates fair value. Cash equivalents are U.S. Treasury overnight investments.

Due from NCUSIF – The carrying amounts for the due from NCUSIF financial instruments approximates fair value.

Employee Advances – The carrying amounts for receivables from employees financial instruments approximate fair value.

Obligation under Capital Lease – The carrying amounts for the remaining obligations owed on capital leases financial instruments approximate fair value.

Notes Payable to NCUSIF – The carrying amounts for notes payable to NCUSIF financial instruments approximates fair value due to its variable rate nature.

12. FUND BALANCE AND RETAINED EARNINGS APPROPRIATION

From 2006 to 2009, the Fund 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 the King Street NCUA Headquarters office space. The appropriation was no longer considered necessary in 2010, as building projects have become more frequently budgeted on an annual basis.

At December 31, 2010 and 2009, retained earnings balances are as follows (in thousands):

	2010	2009
Fund balance (excluding retained earnings appropriation)	$ 32,908	$ 26,302
Retained earnings appropriation	-	1,000
Total fund balance	$ 32,908	$ 27,302

13. CONTINGENCIES

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

14. COLLECTIVE BARGAINING AGREEMENT

NCUA has a collective bargaining agreement (CBA) 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 will remain in effect for a period of three years from its effective date and will be automatically renewable for additional one year periods until otherwise re-negotiated by the parties. NTEU has requested to renegotiate the CBA and the negotiations are ongoing.

15. SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 15, 2011, which is the date the financial statements were available to be issued, and management determined that there are no other items to disclose.

KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

Independent Auditors' Report on Internal Control Over Financial Reporting

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

We have audited the balance sheets of the National Credit Union Administration Operating Fund (the Fund) as of December 31, 2010 and 2009 and the related statements of revenues, expenses, and changes in fund balance, and cash flows (hereinafter referred to as "financial statements") for the years then ended, and have issued our report thereon dated February 15, 2011.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits 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 2010 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, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the third paragraph of this report and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. In our fiscal year 2010 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 described in Exhibit I that we consider to be a significant deficiency in internal control over financial reporting. 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.

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

Exhibit III presents the status of the prior year material weakness.

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

KPMG LLP

February 15, 2011

NATIONAL CREDIT UNION ADMINISTRATION –
OPERATING FUND

SIGNIFICANT DEFICIENCY

Introduction

This exhibit describes the significant deficiency noted during our audit as of and for the year ended December 31, 2010, 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 needs improvement in reporting the activity of property, plant and equipment and intangible assets in the financial statements, enhancing the quality of certain supporting documentation thereby increasing the efficiency of the financial statements close process, and better segregating the preparation and review of manual journal entries. Specifically, we noted the following.

i. Difficulties encountered by management in providing timely support for key reported items in the financial statements. Management was unable to provide documentation related to PP&E, including a roll-forward for the PP&E balances, reconciliations of the PP&E module/subledger to the general ledger, and detailed account listings to support the amounts and disclosures in the financial statements in a timely manner.

ii. A lack of efficiency in the operation of management's recordkeeping and financial close procedures. Specifically, we observed that time was diverted from the financial close and review processes to research and analyze certain transactions from earlier in the year. Upon inspection, the documentation for some transactions, (for example non-routine transaction related to prior post-closing adjustments, etc.) was insufficiently detailed to be understood without special investigation and explanation.

iii. A lack of documentation of control activities. The Fund did not have procedures in place for the first three quarters of 2010 that required the review and approval of manual journal entries and the related supporting documentation. Specifically, the sample journal entries that we tested did not all have evidence that the journal entries were reviewed and approved by someone other than the preparer. During the fourth quarter of 2010, the Fund implemented a manual procedure in which journal entries were reviewed and approved by someone other than the preparer. The sample of journal entries we reviewed in the fourth quarter contained evidence of review and approval by someone other than the preparer. However, the Fund did not have a procedure in place to confirm journal entries were made as approved.

We believe that the incomplete documentation for certain non-routine activity and lack of familiarity with the new general ledger system contributed, in part, to management's inability to efficiently prepare the financial statements and relating supporting documentation in a timeframe that would be expected to consistently enable robust review.

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.

Recommendations

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

- Regularly reassess staff workload and key financial reporting tasks to especially ensure qualified personnel are available to efficiently and effectively perform the year-end closing of the books and preparation of financial statements.

- Expand the level of documentation in the books and records in relation to non-routine activities and transactions so that such information is readily available for inspection. Such documentation should be prepared on a real-time basis so as not to unduly interfere with the annual closing activities and otherwise limit the time available for a robust review process.

- In lieu of wholly-reliance on manual controls, consider the cost/benefit of potential automated procedures and systems-based controls to enforce segregation of duties and enable documented accountability for supervisory reviews for manual journal entries.

Exhibit II

NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND

MANAGEMENT RESPONSE TO AUDIT FINDINGS

Findings: Improvements Needed in Financial Accounting and Reporting Process

At the conclusion of the prior year financial statement audit, the National Credit Union Administration (NCUA) made a strong commitment to remediation to ensure the material weakness identified in 2009 would not be repeated in 2010. The efforts of the NCUA in designing and implementing an effective remediation plan are evidenced by the results of the 2010 audit. The Operating Fund received an unqualified opinion with no material weaknesses.

Several of the issues noted in the prior year audit have been corrected. Deficiencies were identified during the 2010 financial statement audit relating to the following;

1. Timely support for PP&E
2. Efficiency of operations relating to recordkeeping and the financial close process
3. Adequate documentation of control activities

As demonstrated in the prior year, the NCUA is committed to audit remediation and will implement corrective actions to address these findings taking into consideration the agency's resources and priorities.

1. Timely support for PP&E:

The audit finding discussed the inability of management to readily provide documentation related to PP&E. All requested documentation was provided to the auditors. We recognize the need to produce this documentation more timely. NCUA will review current processes in place for PP&E related activities and develop a more structured policy to include quarterly roll-forwards and enhanced documentary evidence of monthly reconciliations that currently take place.

2. Efficiency of operations relating to recordkeeping and the financial close process:

In 2010, NCUA implemented a new United States Standard General Ledger compliant financial management system. The nuances of converting to the new system and the need to devote staff resources simultaneously to both operational accounting duties such as the general ledger and audit support contributed to the auditor's finding. With an additional year of experience using the new accounting system combined with dozens of newly implemented internal control processes and documentation requirements , along with newly created custom reports, NCUA believes substantial improvement related to this finding will take place in the coming year. NCUA acknowledges that attention is necessary in the near term while the financial system conversion is completed. In response to the audit finding, NCUA will look to implement new procedures and consider additional resources and custom reports to allow the full capacity of the new accounting system to be utilized, thereby increasing efficiency.

3. Adequate documentation of accounting policies and procedures:

As the finding recognized, NCUA implemented a manual internal control review procedure during the last quarter of the year whereby journal entries were reviewed and approved by someone other than the preparer prior to entry into the system. While the manual approval process is designed adequately, NCUA management will continue to assess current policies and procedures for areas of improvement and efficiencies. Specifically, NCUA will consider adding additional resources, utilizing additional services offered by the system provider, and implementing periodic procedures to ensure manual transactions are entered accurately and according to policy.

Exhibit III

NATIONAL CREDIT UNION ADMINISTRATION –
OPERATING FUND

STATUS OF PRIOR YEAR FINDINGS

2009 Finding	Deficiency Type	2010 Status
Improvements Needed in Financial Accounting and Reporting Process	Material Weakness	Partially Remediated – Significant Deficiency

KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

Independent Auditors' Report on Compliance and Other Matters

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

We have audited the balance sheets of the National Credit Union Administration Operating Fund (the Fund) as of December 31, 2010 and 2009, and the related statements of revenues, expenses, and changes in fund balance, and statements of cash flows (hereinafter referred to as "financial statements") for the years then ended, and have issued our report thereon dated February 15, 2011.

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

The management of the Fund is responsible for complying with laws, regulations, contracts, and grant agreements 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, 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 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 other 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 addresses, the Fund's management, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

February 15, 2011

National Credit Union Administration Central Liquidity Facility

Financial Statements as of and for the Years Ended
December 31, 2010 and 2009, and
Independent Auditors' Reports

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY
As of and For the Years Ended December 31, 2010 and 2009

TABLE OF CONTENTS

KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

Independent Auditors' Report on Financial Statements

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

We have audited the accompanying balance sheets of the National Credit Union Administration Central Liquidity Facility (CLF) as of December 31, 2010 and 2009 and the related statements of operations, members' equity, and cash flows (hereinafter referred to as "financial statements") for the years then ended. These financial statements are the responsibility of the CLF's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Credit Union Administration Central Liquidity Facility as of December 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our reports dated February 10, 2011, on our consideration of the CLF's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audits.

KPMG LLP

February 10, 2011

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

As Of December 31, 2010 and 2009

(Dollars in thousands, except share data)

BALANCE SHEETS

		2010		2009
ASSETS				
Cash and cash equivalents (Notes 3 and 5)	$	1,905	$	5,900
Investments held to maturity (Net of $4,306 and ($2,169) unamortized premium/(discount), fair value of $1,982,533 and $1,832,955 as of 2010 and 2009, respectively) (Notes 4 and 5)		1,977,556		1,828,831
Loans to members (Notes 5 and 6)		-		8,312,751
Loan to related party (Notes 5 and 11)		-		10,000,000
Accrued interest receivable		500		23,591
TOTAL	$	1,979,961	$	20,171,073
LIABILITIES AND MEMBERS' EQUITY				
LIABILITIES:				
Accounts payable and other liabilities	$	239	$	171
Dividends payable		1,479		1,375
Federal Financing Bank notes payable (Notes 5 and 10)		-		18,312,751
Accrued interest payable		-		23,561
Member deposits (Notes 5 and 8)		329		363
Total Liabilities		2,047		18,338,221
MEMBERS' EQUITY				
Capital stock – required ($50 per share par value authorized: 78,236,318 and 72,749,116 shares; issued and outstanding: 39,118,159 and 36,374,558 shares as of 2010 and 2009, respectively) (Note 7)		1,955,908		1,818,728
Retained earnings		22,006		14,124
Total Members' Equity		1,977,914		1,832,852
TOTAL	$	1,979,961	$	20,171,073

See accompanying notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY
For the Years Ended December 31, 2010 and 2009
(Dollars in thousands)

STATEMENTS OF OPERATIONS

	2010	2009
REVENUE:		
Investment income	$ 14,135	$ 21,468
Interest on loans	45,610	85,649
Gain on sale of investments	-	43
Total Revenue	59,745	107,160
EXPENSES: (Note 11)		
Personnel services	344	205
Personnel benefits	83	48
Other general and administrative expenses	56	81
Total Operating Expenses	483	334
Interest – Federal Financing Bank notes payable (Note 10)	45,610	85,649
Interest – liquidity reserve	2	7
Total Expenses	46,095	85,990
NET INCOME	$ 13,650	$ 21,170

See accompanying notes to financial statements.

(Dollars in thousands, except share data)

STATEMENTS 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 7)			1,719,574		1,719,574
Dividends declared ($0.51/share) (Notes 7 and 8)				(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
Issuance of required capital stock	2,784,248	139,212			139,212
Redemption of required capital stock	(40,647)	(2,032)			(2,032)
Dividends declared ($0.15/share) (Notes 7 and 8)				(5,768)	(5,768)
Net Income				13,650	13,650
BALANCE – December 31, 2010	39,118,159	$ 1,955,908	$ -	$ 22,006	$ 1,977,914

See accompanying notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY
For the Years Ended December 31, 2010 and 2009
(Dollars in thousands)

STATEMENTS OF CASH FLOWS

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$ 13,650	$ 21,170
Adjustments to Reconcile Net Income		
to Net Cash Provided by Operating Activities:		
Decrease/(Increase) in accrued interest receivable	23,091	(8,922)
(Decrease)/Increase in operating liabilities	(23,492)	21,445
Net Cash Provided by Operating Activities	13,249	33,693
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(1,222,725)	(1,828,831)
Proceeds from maturing investments	1,074,000	-
Loan principal repayments/(disbursements) - net	18,312,751	(16,727,273)
Net Cash Provided by/(Used in) Investing Activities	18,164,026	(18,556,104)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of required capital stock	139,212	111,092
Dividends paid (Notes 7 and 8)	(5,664)	(29,448)
Redemption of required capital stock	(2,032)	(74)
Withdrawal of member deposits	(901)	(719)
Repayment of shareholder loan	-	1,719,574
Additions to member deposits	866	596
(Repayments of)/Proceeds from FFB Borrowings - net	(18,312,751)	16,727,273
Net Cash Provided by/(Used in) Financing Activities	(18,181,270)	18,528,294
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(3,995)	5,883
CASH AND CASH EQUIVALENTS– Beginning of Year	5,900	17
CASH AND CASH EQUIVALENTS – End of Year	$ 1,905	$ 5,900
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION – Cash Paid during the Year for Interest	$ 69,173	$ 64,250

See accompanying notes to financial statements.

1. ORGANIZATION AND PURPOSE

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

CLF was created to improve the general financial stability of credit unions by serving as a liquidity lender to credit unions experiencing unusual or unexpected liquidity shortfalls. CLF accomplishes its purpose by 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. The Federal Accounting Standards Advisory Board (FASAB) is the standards-setting body for the establishment of GAAP with respect to the financial statements of Federal Government entities. FASAB has indicated that financial statements prepared based upon standards promulgated by FASB may also be regarded as in accordance with GAAP for those Federal entities, such as CLF, that have issued financial statements based upon FASB standards in the past.

(b) **Basis of Accounting –** CLF maintains its accounting records on the accrual basis of accounting. CLF recognizes interest 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, liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's estimates.

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

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

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

CLF records investment transactions when they are made.

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

CLF has form documents in place that reflect the repayment, security, and credit reporting terms applicable to all CLF loans. CLF makes loan disbursements through the corporate credit union network and relies on members of the corporate network to service loans it has made. CLF relies on the U.S. Central Federal Credit Union (USC) and its successor, U.S. Central Bridge Corporate Federal Credit Union (USC Bridge), (Note 7) as its agents and master servicers for all loans; 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 a loan servicer to subordinate any claims it might have in the collateral owned by natural person credit unions that may have been pledged to secure an advance from the corporate credit union.

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

A loan is considered impaired if it is probable that CLF will not collect all principal and interest actually due. The impairment is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate. CLF does not accrue interest when a loan is considered impaired. When ultimate collectability of the principal balance of the impaired loan is in doubt, all cash receipts on the impaired loan are applied to reduce the principal of such loan until the principal has been recovered, and are recognized as interest income thereafter. Impairment losses are charged against the allowance, and increases in the allowance are charged as bad debt expense. Loans are written off against the allowance when all possible means of collection have been exhausted and the potential for recovery is considered remote. There was no allowance and no past due loans as of December 31, 2010 and 2009, and there were no write offs for fiscal years (FY) 2010 and 2009. CLF management considers write offs remote because all member loans must be collateralized with a minimum of 110 percent of the outstanding amount.

(Dollars in thousands, except share data)

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

(g) **Borrowings –** CLF's borrowings are recorded when they are received, do not hold premiums or discounts, and are carried at amortized cost. Repayments are recorded when they are made.

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

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

The National Credit Union Share Insurance Fund (NCUSIF) is also a related party. CLF has the statutory authority to advance funds to NCUSIF; such advances were made in 2009 (Note 11).

3. CASH AND CASH EQUIVALENTS

CLF's cash and cash equivalents as of December 31, 2010 and 2009 are as follows:

	2010	2009
U.S. Treasury Securities	$ 1,778	$ 5,261
USC Daily Transaction Share Account	110	622
PNC Bank	17	17
Total	$ 1,905	$ 5,900

The 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.

(Dollars in thousands, except share data)

4. INVESTMENTS

The carrying amount, gross unrealized holding gains, gross unrealized losses, and the fair value of held-to-maturity debt securities as of December 31, 2010 and 2009 were as follows:

	Carrying Amount	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
As of December 31, 2010:				
U.S. Treasury Securities:	$ 1,977,556	4,977	-	1,982,533
As of December 31, 2009:				
U.S. Treasury Securities:	$ 1,828,831	4,335	(211)	1,832,955

Maturities of debt securities classified as held-to-maturity were as follows as of December 31, 2010 and 2009:

	2010		**2009**	
	Net Carrying Amount	**Aggregate Fair Value**	**Net Carrying Amount**	**Aggregate Fair Value**
Due in one year or less	$ 1,868,391	$ 1,873,003	$ 993,122	$ 994,036
Due after one year through five years	104,183	104,416	832,721	836,083
Due after five years through ten years	4,982	5,114	2,988	2,836
Total	$ 1,977,556	$ 1,982,533	$ 1,828,831	$ 1,832,955

5. FAIR VALUE MEASUREMENTS

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

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

The following table presents the carrying amounts and established fair values of CLF's financial instruments as of December 31, 2010 and 2009. The fair value of an instrument is the amount that would be received to sell an asset or would be paid to transfer a liability in an orderly transaction between market participants by the measurement date.

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

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

Loans – For loans advanced to member credit unions and the loans 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 CLF in excess of required capital amounts are recorded as member deposits. These deposits are due upon demand; therefore, carrying amounts approximate the fair value.

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

The carrying values and approximate fair values of financial instruments as of December 31, 2010 and December 31, 2009 are as follows:

(Dollars in thousands, except share data)

	2010		2009	
Financial Instruments	**Carrying Value**	**Fair Value**	**Carrying Value**	**Fair Value**
Cash and cash equivalents	$ 1,905	$ 1,905	$ 5,900	$ 5,900
Investments held to maturity	1,977,556	1,982,533	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	500	500	23,591	23,591
Accounts payable and other liabilities	239	239	171	171
Dividends payable	1,479	1,479	1,375	1,375
Federal Financing Bank notes payable	-	-	18,312,751	18,312,751
Accrued interest payable	-	-	23,561	23,561
Member deposits	329	329	363	363

6. LOANS TO MEMBERS

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

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 was indebted to USC, which was obligated to repay the advance to CLF. The NCUA Board approved streamlining this relationship so that the indebtedness of the natural person credit union to 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 Federal Credit Union Act (12 USC §1795a). CLF began making Other Than Liquidity Needs (OTLN)-based loans in January 2009.

(Dollars in thousands, except share data)

The two initiatives for OTLN lending are CU SIP and CU HARP. All loans granted under CU SIP matured in the first quarter of 2010, while the CU HARP loans matured December 30, 2010. The CU SIP and CU HARP loan amounts, maturity dates, and interest rates are presented in the table below. Both programs were match-funded with advances from the FFB.

	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	12/30/2010	0.5740%
Total	$ 8,312,751		

7. 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 are declared and paid only on required capital stock.

During FY1984, CLF accepted a membership request from USC on behalf of its corporate credit union members. As of December 31, 2009, $1,750,551 of CLF capital stock was purchased by USC on behalf of its member corporate credit union members. USC had 26 corporate credit union members as of December 31, 2009.

On October 1, 2010, USC was liquidated and certain Balance Sheet items were conveyed, with no change to the rights and obligations, to the newly chartered USC Bridge as of the liquidation date, including the capital stock of CLF. As of December 31, 2010, $1,885,176 of CLF capital stock was purchased by USC Bridge on behalf of its member corporate credit union members. CLF has a plan for the transfer of ownership of the capital stock to member credit unions when USC Bridge ultimately winds down. USC Bridge had 25 corporate credit union members as of December 31, 2010.

(Dollars in thousands, except share data)

A member of CLF whose capital stock account constitutes less than five percent of the total capital stock outstanding may withdraw from membership in CLF six months after notifying the NCUA Board of its intention. A member whose capital stock account constitutes five percent or more of the total capital stock outstanding may withdraw from membership in CLF two years after notifying the NCUA Board of its intention. As of December 31, 2010, CLF had no member withdrawal requests pending.

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

CLF’s capital stock accounts were composed of the following as of December 31, 2010 and 2009:

	2010		2009	
	Shares	**Amount**	**Shares**	**Amount**
Regular members	1,414,633	$ 70,732	1,363,531	$ 68,177
Agent members	37,703,526	1,885,176	35,011,027	1,750,551
Total	39,118,159	$ 1,955,908	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 $1,719,574 for an outstanding shareholder loan.

8. MEMBER DEPOSITS

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

9. CONCENTRATION OF CREDIT RISK

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

10. BORROWING AUTHORITY

CLF is authorized by statute to borrow, from any source, an amount not to exceed 12 times its subscribed capital stock and surplus. Until October 1, 2008, Congress, through the appropriations process, placed a limit on gross obligations at $1,500,000. However, effective October 1, 2008, under Public Law 110-329, *Consolidated Security, Disaster Assistance, and Continuing Appropriations Act, 2009*, Congress took action to remove the annual borrowing limitation of $1,500,000 to enable CLF to borrow up to its full statutory authority. As of December 31, 2010, CLF's statutory borrowing authority was $47,205,862.

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

As of December 31, 2010, CLF was in compliance with its borrowing authority.

11. RELATED PARTY TRANSACTIONS

NCUA OF pays the salaries and benefits of CLF's employees, CLF's building, and operating costs. Expenses are allocated by applying the ratio of CLF full-time equivalent employees to the NCUA total. These expenses are reimbursed to NCUA OF quarterly. All other CLF reimbursement expenses are paid annually. The total amount charged by NCUA was approximately $483 and $334, respectively, for December 31, 2010 and 2009. Accounts payable and other liabilities include approximately $183 and $145, respectively, for December 31, 2010 and 2009, due to NCUA 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, as well as a Short-Term Revolving Promissory Note, on March 20, 2009, to fund $20,000,000 with a final maturity date of any advance of 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. 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. CLF elected to repurchase this note from FFB prior to the original stated maturity and all amounts due to FFB were paid on October 12, 2010.

12. SUBSEQUENT EVENTS

Management evaluated all events and transactions that occurred after December 31, 2010 through February 10, 2011, which is the date CLF issued these financial statements, and determined that there are no other items to disclose.

KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

Independent Auditors' Report on Internal Control Over Financial Reporting

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

We have audited the balance sheets of the National Credit Union Administration Central Liquidity Fund (CLF) as of December 31, 2010 and 2009 and the related statements of operations, members' equity, and cash flows (hereinafter referred to as "financial statements") for the years then ended, and have issued our report thereon dated February 10, 2011.

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

The management of the CLF is responsible for establishing and maintaining effective internal control. In planning and performing our fiscal year 2010 audit, we considered the CLF's internal control over financial reporting by obtaining an understanding of the CLF's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the CLF's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the CLF's internal control over financial reporting. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the third paragraph of this report and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. In our fiscal year 2010 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Exhibit I presents the status of the prior year significant deficiency.

This report is intended solely for the information and use of the addressees, the CLF's management, the 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 10, 2011

Exhibit I

NATIONAL CREDIT UNION ADMINISTRATION –
CENTRAL LIQUIDITY FACILITY

STATUS OF PRIOR YEAR FINDINGS

2009 Finding	Deficiency Type	2010 Status
CLF should improve and formalize its 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.	Significant Deficiency	Closed

KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

Independent Auditors' Report on Compliance and Other Matters

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

We have audited the balance sheets of the National Credit Union Administration Central Liquidity Facility (CLF) as of December 31, 2010 and 2009, and the related statements of operations, members' equity, and cash flows (hereinafter referred to as "financial statements") for the years then ended, and have issued our report thereon dated February 10, 2011.

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

The management of the CLF is responsible for complying with laws, regulations, contracts, and grant agreements 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, 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, 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 other 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, 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

February 10, 2011

National Credit Union Administration Community Development Revolving Loan Fund

Financial Statements as of and for the
Years Ended December 31, 2010 and 2009, and
Independent Auditors' Reports

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

TABLE OF CONTENTS

KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

Independent Auditors' Report on Financial Statements

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

We have audited the accompanying balance sheets of the National Credit Union Administration Community Development Revolving Loan Fund (CDRLF) as of December 31, 2010 and 2009, and the related statements of operations, changes in fund balance, and cash flows (hereinafter referred to as "financial statements") for the years then ended. These financial statements are the responsibility of the CDRLF's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the CDRLF as of December 31, 2010 and 2009, and its results of operations, changes in fund balance, and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our reports dated February 10, 2011, on our consideration of the CDRLF's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audits.

KPMG LLP

February 10, 2011

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

BALANCE SHEETS
AS OF DECEMBER 31, 2010 AND 2009

	2010	2009
ASSETS		
Cash and Cash Equivalents (Note 3)	$ 11,566,056	$ 8,949,290
Loans Receivable (Notes 5, 6, and 7)	5,482,614	8,818,487
Interest Receivable (Note 7)	12,984	19,193
Total	$ 17,061,654	$ 17,786,970
LIABILITIES AND FUND BALANCE		
LIABILITIES — Accrued Technical Assistance (Note 7)	$ 2,194,094	$ 1,604,064
FUND BALANCE:		
Fund Capital	13,387,777	14,637,777
Accumulated Earnings	1,479,783	1,545,129
Total Fund Balance	14,867,560	16,182,906
Total	$ 17,061,654	$ 17,786,970

See accompanying notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
SUPPORT AND REVENUES:		
Interest on Cash Equivalents (Notes 3 and 7)	$ 6,497	$ 4,066
Interest on Loans (Note 7)	72,925	102,584
Appropriation Revenue (Note 4)	1,250,000	1,000,000
Total Support and Revenues	1,329,422	1,106,650
EXPENSES:		
Technical Assistance	1,394,720	1,049,778
Provision for Loan Losses	48	(1,950)
Total Expenses	1,394,768	1,047,828
NET INCOME/(LOSS)	$ (65,346)	$ 58,822

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, 2010 AND 2009

	Fund Capital				
	For Loans	**For Technical Assistance**	**Total Fund Capital**	**Accumulated Earnings**	**Total Fund Balance**
December 31, 2008	$13,387,777	$47,865	$13,435,642	$1,486,307	$14,921,949
Appropriations Received (Note 4)	-	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
Appropriations Received (Note 4)	-	-	-	-	-
Appropriations Expended	-	(1,250,000)	(1,250,000)	-	(1,250,000)
Appropriations Expired	-	-	-	-	-
Net Loss	-	-	-	(65,346)	(65,346)
December 31, 2010	$13,387,777	-	$13,387,777	$1,479,783	$14,867,560

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, 2010 AND 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (Loss)/Income	$ (65,346)	$ 58,822
Adjustments to Reconcile Net (Loss)/Income to Net Cash Used in Operating Activities:		
Appropriation Revenue Recognized	(1,250,000)	(1,000,000)
Changes in Assets and Liabilities:		
Decrease in Interest Receivable	6,209	6,427
Increase in Accrued Technical Assistance	590,030	336,687
Net Cash Used in Operating Activities	(719,107)	(598,064)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Loan Principal Repayments	3,607,388	4,323,025
Loan Disbursements	(271,515)	(2,588,000)
Net Cash Provided by Investing Activities	3,335,873	1,735,025
CASH FLOWS FROM FINANCING ACTIVITIES:		
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
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,616,766	3,339,096
CASH AND CASH EQUIVALENTS — Beginning of Year	8,949,290	5,610,194
CASH AND CASH EQUIVALENTS — End of Year	$ 11,566,056	$ 8,949,290

See accompanying notes to financial statements.

1. NATURE OF ORGANIZATION

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

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

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

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

2. SIGNIFICANT ACCOUNTING AND OPERATIONAL POLICIES

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

Basis of Accounting – CDRLF reports its financial statements on the accrual basis of accounting in conformity with GAAP.

Cash Equivalents – The Federal Credit Union Act permits CDRLF to make investments in United States Government Treasury securities. All investments in 2010 and 2009 were cash equivalents and were stated at cost, which approximates fair value. Cash equivalents are highly liquid investments with original maturities of three months or less.

Loans Receivable and Allowance for Loan Losses – Loans are limited to a maximum amount of $300,000 per credit union. By regulation, a loan may have a fixed annual percentage rate of not more than 3% and not less than 1%. Per NCUA policy, loans issued after January 1, 2002 carry a fixed annual 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 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 as of December 31, 2010 and 2009. 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 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 according to FASB ASC 958-605, *Revenue Recognition for Non-Profit Entities*, as the related technical assistance expense is recognized. Total appropriation revenues will differ from total technical assistance expenses because not all technical assistance is funded by appropriations. Interest income on cash and equivalents, and on loans is recognized when earned.

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

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

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

3. CASH AND CASH EQUIVALENTS

CDRLF's cash and cash equivalents as of December 31, 2010 and December 31, 2009 are as follows:

	2010	2009
Deposit U.S. Treasury	$ 5,566,056	$3,949,290
U.S. Treasury Overnights	6,000,000	5,000,000
	$11,566,056	$8,949,290

4. 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 and 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, 2010, CDRLF received no appropriations.

During the year ended December 31, 2009, CDRLF received appropriations for technical assistance in the amount of $2,250,000: $1,000,000 for fiscal years (FY) 2009-2010, with no rescissions; and, $1,250,000 for FYs 2010 – 2011 with no rescissions.

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

No appropriations were remitted to the U.S. Treasury in 2010 upon expiration.

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

For the appropriations received for technical assistance for FY 2009 – 2010, $1,000,000 expired on September 30, 2010 and $1,250,000 expires on September 30, 2011.

5. LOANS RECEIVABLE

Loans outstanding as of December 31, 2010, are scheduled to be repaid during the following subsequent years:

	2010
2011	$ 2,350,099
2012	2,059,818
2013	520,499
2014	500,499
2015	51,699
Loans Outstanding	5,482,614
Allowance for loan losses	-
Total Loans Receivable	$ 5,482,614

NCUA Rules and Regulations Section 705.7 permits the classification of the loan in the participating credit union's accounting records as a non-member deposit. As a non-member deposit, 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 $7,021 and $293,910 as of December 31, 2010 and 2009, respectively.

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

6. CONCENTRATION OF CREDIT RISK

As of December 31, 2010 and December 31, 2009, 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.

7. ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that CDRLF has the ability to access at the measurement date

- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 inputs are unobservable inputs for the asset or liability.

The fair value of an instrument is the amount that would be received to sell an asset or would be paid to transfer a liability in an orderly transaction between market participants by the measurement date.

Loans Receivable – Fair value is estimated using an income approach by discounting each individual loan's projected future cash flow. CDRLF believes that the discount rate reflects the pricing and risk of the loans to CDRLF. Loans are valued yearly on December 31, 2010.

Other – The carrying amounts for cash and cash equivalents, interest receivable, and accrued technical assistance approximate fair value.

The following table presents the carrying amounts and established fair values of CDRLF's financial instruments as of December 31, 2010 and 2009.

	2010		**2009**	
	Carrying Amount	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Assets:				
Cash and cash equivalents	$ 11,566,056	$ 11,566,056	$ 8,949,290	$ 8,949,290
Loans receivable	5,482,614	5,496,833	8,818,487	8,310,773
Interest receivable	12,984	12,984	19,193	19,193
Liabilities:				
Accrued technical assistance	2,194,094	2,194,094	1,604,064	1,604,064

8. OVERHEAD EXPENSES

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

For the years ending December 31, 2010 and December 31, 2009, NCUA, through the OF, paid the following overhead expenses on behalf of CDRLF:

	2010	2009
Employee	$ 387,233	$ 242,223
Other	15,519	12,303
Total	$ 402,752	$ 254,526

9. SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 10, 2011, which is the date the financial statements were available to be issued, and management determined that there are no other items to disclose.

KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

Independent Auditors' Report on Internal Control Over Financial Reporting

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

We have audited the balance sheets of the National Credit Union Administration Community Development Revolving Loan Fund (CDRLF) as of December 31, 2010 and 2009 and the related statements of operations, changes in fund balance, and cash flows (hereinafter referred to as "financial statements") for the years then ended, and have issued our report thereon dated February 10, 2011.

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

The management of the CDRLF is responsible for establishing and maintaining effective internal control. In planning and performing our fiscal year 2010 audit, we considered the CDRLF's internal control over financial reporting by obtaining an understanding of the CDRLF's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the CDRLF's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the CDRLF's internal control over financial reporting. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the third paragraph of this report and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. In our fiscal year 2010 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Exhibit I presents the status of prior year significant deficiency and material weaknesses.

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 10, 2011

Exhibit I

NATIONAL CREDIT UNION ADMINISTRATION –
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

STATUS OF PRIOR YEAR FINDINGS

2009 Finding	Deficiency Type	2010 Status
Improvements Needed in Management' Review Procedures Over the Cash Handling and Reconciliation Process	Material Weakness	Closed
Improvements Needed in Management's Review Procedures Over the Financial Accounting and Reporting Process	Significant Deficiency	Closed

KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

Independent Auditors' Report on Compliance and Other Matters

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

We have audited the balance sheets of the National Credit Union Administration Community Development Revolving Loan Fund (CDRLF) as of December 31, 2010 and 2009, and the related statements of operations, changes in fund balance, and cash flows (hereinafter referred to as "financial statements") for the years then ended, and have issued our report thereon dated February 10, 2011.

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

The management of the 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 other 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 10, 2011

National Credit Union Share Insurance Fund

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

NATIONAL CREDIT UNION SHARE INSURANCE FUND

TABLE OF CONTENTS

KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

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, 2010, and the related statements of net cost, and changes in net position, and statement of budgetary resources (hereinafter referred to as "financial statements") for the year then ended. These financial statements are the responsibility of the NCUSIF's management. Our responsibility is to express an opinion on these financial statements based on our 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 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, 2010, and its net costs, changes in net position, and budgetary resources for the year then ended in conformity with U.S. generally accepted accounting principles.

The information in the Required Supplementary Information section is not a required part of the financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our reports dated May 11, 2011, on our consideration of the NCUSIF's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audit.

KPMG LLP

May 11, 2011

NATIONAL CREDIT UNION SHARE INSURANCE FUND

BALANCE SHEET
As of December 31, 2010
(Dollars in thousands)

		2010
ASSETS		
INTRAGOVERNMENTAL		
Fund Balance with Treasury (Note 2)	$	1,551
Investments, Net - U.S. Treasury Securities (Note 3)		10,848,272
Accounts Receivable - Note due from the National Credit Union Administration Operating Fund (Note 4)		17,097
Accrued Interest Receivable (Note 3)		72,359
Total Intragovernmental Assets		10,939,279
PUBLIC		
Accounts Receivable - Capitalization Deposits from Insured Credit Unions, Net (Note 4)		183
Accounts Receivable - Premium Assessments from Insured Credit Unions, Net (Note 4)		2,036
Other - Receivables from Asset Management Estates, Net (Note 5)		143,278
General Property, Plant, and Equipment, Net		38
Total Public Assets		145,535
TOTAL ASSETS	$	11,084,814
LIABILITIES		
INTRAGOVERNMENTAL		
Accounts Payable - Due to the Temporary Corporate Credit Union Stabilization Fund	$	194
Accounts Payable - Due to the National Credit Union Administration Operating Fund (Note 7)		2,857
Total Intragovernmental Liabilities		3,051
PUBLIC		
Accounts Payable		433
Other - Insurance and Guarantee Program Liabilities (Note 6)		1,225,281
Total Public Liabilities		1,225,714
TOTAL LIABILITIES		1,228,765
Commitments and Contingencies (Note 6)		
NET POSITION		
Contributed Capital (Note 10)		7,485,159
Cumulative Result of Operations		2,370,890
Total Net Position		9,856,049
TOTAL LIABILITIES AND NET POSITION	$	11,084,814

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

NATIONAL CREDIT UNION SHARE INSURANCE FUND

STATEMENT OF NET COST
For the Year Ended December 31, 2010
(Dollars in thousands)

		2010
GROSS COSTS		
Operating Expenses (Note 7)	$	117,004
Interest Expense on Borrowings (Note 7)		41,227
Fee on Early Retirement of Borrowings from the National Credit Union Administration Central Liquidity Facility (Note 7)		7,599
Insurance Loss Expense (Note 6)		735,562
Total Gross Costs		901,392
LESS EARNED REVENUES		
Interest Revenue on Note Receivable from the National Credit Union Administration Operating Fund (Note 4)		(397)
Interest Revenue on Loans (Note 7)		(41,227)
Fee on Early Retirement of Loans to Corporate Credit Unions (Note 7)		(7,599)
Insurance and Guarantee Premium Revenue (Note 7)		(929,952)
Total Earned Revenues		(979,175)
TOTAL NET COST/(INCOME) OF OPERATIONS	$	(77,783)

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

NATIONAL CREDIT UNION SHARE INSURANCE FUND

STATEMENT OF CHANGES IN NET POSITION
For the Year Ended December 31, 2010
(Dollars in thousands)

		2010
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balance	$	1,967,147
BUDGETARY FINANCING SOURCES		
Non-Exchange Revenue		
Interest Revenue - Investments (Note 3)		216,921
OTHER FINANCING SOURCES		
Non-Exchange Revenue		
Unrealized Gain/Loss - Investments (Note 3)		109,039
Total Financing Sources		325,960
Net Income from/(Cost of) Operations		77,783
Net Change		403,743
CUMULATIVE RESULTS OF OPERATIONS		2,370,890
CONTRIBUTED CAPITAL (Note 10)		
Beginning Balance		7,067,139
Change in Contributed Capital		418,020
CONTRIBUTED CAPITAL		7,485,159
NET POSITION	$	9,856,049

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

NATIONAL CREDIT UNION SHARE INSURANCE FUND

STATEMENT OF BUDGETARY RESOURCES
For the Year Ended December 31, 2010
(Dollars in thousands)

		2010
BUDGETARY RESOURCES (Notes 8, 9 & 12)		
Unobligated Balance, brought forward, January 1	$	9,190,828
Budget Authority:		
Spending Authority from Offsetting Collections		
Collected		11,628,115
Change in Receivables from Federal Sources		1,305
TOTAL BUDGETARY RESOURCES	$	20,820,248
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred: Reimbursable	$	10,390,054
Unobligated Balance: Exempt from Apportionment		10,430,194
TOTAL STATUS OF BUDGETARY RESOURCES	$	20,820,248
CHANGE IN OBLIGATED BALANCES		
Obligated Balance, net:		
Unpaid Obligations, brought forward, January 1	$	62,321
Uncollected Customer Payments from Federal Sources, brought forward, January 1		(71,054)
Total, Unpaid Obligated Balance, brought forward, January 1		(8,733)
Obligations Incurred, Net		10,390,054
Gross Outlays		(10,448,096)
Change in Uncollected Customer Payments from Federal Sources		(1,305)
TOTAL, UNPAID OBLIGATED BALANCE, NET, END OF PERIOD	$	(68,080)
OBLIGATED BALANCE, NET, END OF PERIOD:		
Unpaid Obligations, end of period	$	4,279
Uncollected Customer Payments from Federal Sources, end of period		(72,359)
TOTAL, UNPAID OBLIGATED BALANCE, NET, END OF PERIOD	$	(68,080)
NET OUTLAYS		
Gross Outlays	$	10,448,096
Offsetting Collections		(11,628,115)
TOTAL NET OUTLAYS	$	(1,180,019)

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The National Credit Union Share Insurance Fund (NCUSIF) was created by Title II of the Federal Credit Union Act (FCU Act), 12 U.S.C. 1781 et seq., as amended by §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, P.L. No. 111-22, 123 Stat. 1632, 1648 (2009) (Helping Families Act). The NCUSIF was established as a revolving fund in the Treasury of the United States (U.S. Treasury), under the National Credit Union Administration (NCUA) Board of Directors (NCUA Board) for the purpose of insuring member share deposits in all Federal Credit Unions (FCUs) and in qualifying state credit unions requesting insurance.

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

Assistance from the NCUSIF may be in the form of a waiver of statutory reserve requirements, 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 will liquidate the credit union, pay members' shares up to the maximum insured amount, and dispose of its assets.

Fiduciary Responsibilities
Fiduciary activities are the collection or receipt, management, protection, accounting, investment, or disposition by the Federal Government of cash or other assets, in which non-federal individuals or entities have an ownership interest that the Federal Government must uphold. NCUA's Asset Management and Assistance Center (AMAC) conducts liquidations and performs management and recovery of assets for failed credit unions. Assets and liabilities of liquidated credit unions reside in Asset Management Estates (AMEs), as authorized by the NCUA Board. These assets and liabilities are held for the exclusive benefit of non-federal parties and therefore are considered fiduciary in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 31, "Accounting for Fiduciary Activities." The beneficiaries of the fiduciary activities are shareholders and other claimants of the liquidated credit unions. Fiduciary assets are not assets of the Federal Government and therefore are not recognized on the Balance Sheet.

Sources of Funding
Deposits insured by NCUSIF are backed by the full faith and credit of the Federal 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 FCU Act.

In addition, the NCUSIF has $6.0 billion in available borrowing authority, shared with the Temporary Corporate Credit Union Stabilization Fund (TCCUSF), from the U.S. Treasury.

Under the FCU Act, the NCUSIF also has the ability to borrow from the NCUA Central Liquidity Facility (CLF). CLF had $35.0 billion of full borrowing capacity under its note purchase agreement with the Federal Financing Bank (FFB), as of December 31, 2010.

Recent Legislation
The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act), §335 P.L. 111-203, 124 Stat. 1544, amended the FCU Act to make permanent the standard maximum share insurance amount of $250,000. Section 343 of the Dodd-Frank Act also amended the FCU Act to include full share insurance coverage, beyond the standard maximum share insurance amount ($250,000), for the net amount that any member or depositor at an insured credit union maintains in a noninterest-bearing transaction account, effective through December 31, 2012. A noninterest-bearing transaction account is an account maintained at an insured credit union wherein interest is neither accrued nor paid, the account holder or depositor is permitted to make withdrawals for the purpose of making payments or transfers to others, and on which the insured credit union does not reserve the right to require advance notice of an intended withdrawal.

Basis of Presentation

The NCUSIF's financial statements have been prepared from its accounting records in accordance with the Federal Accounting Standards Advisory Board (FASAB) SFFAS. FASAB is recognized by the American Institute of Certified Public Accountants as the official accounting standards-setting body of the Federal Government. The format of the financial statements and notes is in accordance with the form and content guidance provided in Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements,* revised September 29, 2010.

The NCUSIF historically prepared its financial statements in accordance with generally accepted accounting principles in the United States of America (GAAP), based on standards issued by the Financial Accounting Standards Board (FASB), the private-sector standards-setting body. On September 16, 2010, the NCUA Board authorized the NCUSIF to adopt the FASAB standards for financial reporting, effective from January 1, 2010. Accordingly, this is the first year of presentation of the NCUSIF financial statements in accordance with FASAB.

Basis of Accounting

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

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

NCUA, including the NCUSIF, is exempt from requirements under the Federal Credit Reform Act of 1990 (2 U.S.C. §661e (a) (1)).

Use of Estimates

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

- Reported amounts of assets and liabilities
- Disclosure of contingent assets and liabilities at the date of the financial statements
- The amounts of revenues and expenses reported during that period.

Actual results could differ from estimates. Significant items subject to those estimates and assumptions include reserves for losses and contingencies related to Insurance and Guarantee Program Liabilities. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

Net Position and Contributed Capital

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

Fund Balance with Treasury

Fund Balance with Treasury (FBWT) is the aggregate amount of the NCUSIF's accounts with the Federal Government's central accounts, from which the NCUSIF is authorized to make expenditures and pay liabilities. The entire FBWT is a revolving fund type. Cash balances in FBWT are invested in U.S. Treasury securities, as managed by the Bureau of the Public Debt.

Investments

Investment securities as of December 31, 2010, primarily consist of marketable U.S. Treasury securities of varying maturities (debt securities). The NCUSIF also holds non-marketable U.S. Treasury overnight securities purchased and reported at par value, which are classified as held to maturity. All marketable securities are carried as available-for-sale, in accordance with FASB Accounting Standards Codification (ASC) 320, "Investments – Debt and Equity Securities." Consistent with SFFAS No. 34, "The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board," NCUA applies FASB guidance because FASAB has not issued specific guidance for securities that are classified as available-for-sale.

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

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

Premiums and discounts are amortized or accreted over the life of the related available-for-sale security as an adjustment to yield using the effective interest method. The amortization and accretion of a premium and discount, respectively, are 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 down to par.
2. For discounts, the accretion of that discount is recorded directly to the security's carrying amount to bring the recorded amount of the investment back up to par.

Revenue Recognition

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

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

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

Accounts Receivable

The NCUSIF's accounts receivable has two components: Intragovernmental and Public. Intragovernmental accounts receivable represent receivables between the NCUSIF and another reporting entity within the Federal Government. Public accounts receivable represent accounts receivable between the NCUSIF and a non-federal entity.

Capitalization Deposits from Insured Credit Unions
Each insured credit union pays to and maintains with the NCUSIF a capitalization deposit amount equal to one percent of its insured shares. A receivable and associated non-exchange revenue is recognized upon invoicing.

Premium Assessments from Insured Credit Unions
The NCUA Board has the statutory authority according to the FCU Act Section 1782, *Administration of the Insurance Fund*, to assess the federally insured credit unions for a premium charge. The NCUA Board may assess each insured credit union a premium charge for insurance in an amount stated as a percentage of insured shares outstanding as of the most recently ended reporting period if the NCUSIF's equity ratio, as defined, is less than 1.3%. When the NCUA Board projects that the equity ratio will, within six months, fall below 1.2%, the NCUA Board shall establish and implement a

restoration plan within 90 days, which meets the requirements and conditions that the NCUA Board determines appropriate. In order to meet the requirements established by the NCUA 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).

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. As the premium assessments are collected, the portion billed on behalf of the TCCUSF is recorded as a payable to the TCCUSF.

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

Accrued Interest Receivable

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

Other - Receivables from Asset Management Estates

Receivables from AMEs include claims to recover payments made by the NCUSIF to cover obligations to insured shareholders, and administrative expenses paid on behalf of AMEs. Any related allowance for loss represents the difference between the funds disbursed and obligations incurred and the expected repayment from the AMEs. Assets held by the AMEs are the main source of repayment of the NCUSIF's receivables from the AMEs.

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

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

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

Insurance and Guarantee Liabilities

In accordance with SFFAS No. 5, "Accounting for Liabilities of the Federal Government," all federal insurance and guarantee programs, except social insurance and loan guarantee programs, should recognize a liability for:

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

The NCUSIF records a contingent liability for potential losses relating to member credit unions. Through NCUA's supervision process, NCUA applies a supervisory rating system to assess each credit union's relative health in the adequacy of Capital, the quality of Assets, the capability of Management, the quality and level of Earnings, and the adequacy of Liquidity (CAMEL), applying a value ranging from "1" (strongest) to "5" (weakest). The contingent liability is derived by applying expected failures based on CAMEL ratings and historical loss rates for all credit unions rated "2" through "5." In addition, credit union specific analysis is performed on those credit unions where failure is imminent or where additional information is available that may affect the estimate of losses.

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

2. FUND BALANCE WITH TREASURY

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

Total Fund Balance with Treasury: Revolving Funds	$	1,551
Status of Fund Balance with Treasury:		
Unobligated Balance - Available	$	10,430,194
Obligated Balances Not Yet Disbursed		4,279
Non-Budgetary FBWT Accounts		(10,432,922)
Total	$	1,551

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

During 2010, the FBWT account was increased by maturing investments in U.S. Treasury securities and premium assessments. The FBWT account was decreased by purchases of U.S. Treasury securities and amounts expended for the purposes of the share insurance program. As of December 31, 2010, there were no unreconciled differences between U.S. Treasury records and balances reported on the NCUSIF's general ledger.

3. INVESTMENTS

The FCU Act, Section 1783 (c), as amended, provides guidance regarding U.S. Treasury security investments. All investments at the NCUSIF pertain to marketable (available-for-sale) U.S. Treasury securities of varying maturities and non-marketable (held to maturity) U.S. Treasury daily overnight securities. Premiums or discounts on available-for-sale securities are amortized using the effective interest method.

As of December 31, 2010, the carrying amount, gross unrealized holding gains, gross unrealized holding losses, and fair value of U.S. Treasury securities were as follows:

(Dollars in thousands)	Cost	Amortized (Premium) Discount	Interest Receivable	Investments, Net (Par)	Net Unrealized Gain (Loss)	Carrying/Fair Value
Available-for-Sale	$ 10,127,327	$ (135,992)	$ 72,359	$ 9,720,000	$ 186,387	$ 10,177,722
Held to Maturity	670,550	n/a	-	670,550	n/a	670,550
Total	$ 10,797,877	$ (135,992)	$ 72,359	$ 10,390,550	$ 186,387	$ 10,848,272

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

(Dollars in thousands)	**Fair value**
Held to Maturity (Overnights)	$ 670,550
Available-for-sale:	
Due prior to one year	1,627,609
Due after one year through five years	7,190,675
Due after five years through ten years	1,359,438
	$ 10,848,272

There were no realized gains or losses in 2010.

The following table presents gross unrealized losses on investment securities, for which OTTI 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, 2010.

	Duration of Losses - Less than 12 months		
(Dollars in thousands)	Unrealized losses	Unrealized gains	Fair value
Available-for-sale:			
U.S. Treasury securities	$ (50,119)	$ 236,506	$ 10,177,722

The unrealized losses on investments in U.S. Treasury securities, included in the table above, were the result of lower interest rates at issuance compared to current higher 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. These securities are not considered OTTI because the NCUSIF does not intend to sell, and more likely than not, will not be required to sell before recovery of the cost basis.

4. ACCOUNTS RECEIVABLE

Intragovernmental – Accounts Receivable

Note Due From the NCUA Operating Fund
In 1992, the NCUSIF lent approximately $42.0 million to the NCUA Operating Fund, pursuant to a 30-year note secured by the NCUA premises in Alexandria, Virginia. Interest income recognized was approximately $397 thousand for 2010. The note receivable balance as of December 31, 2010, was approximately $17.1 million.

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

As of December 31, 2010, the above note requires principal repayments as follows (in thousands):

Years Ending December 31	Secured Term Note
2011	$ 1,341
2012	1,341
2013	1,341
2014	1,341
2015	1,341
Thereafter	10,392
Total	$ 17,097

Public – Accounts Receivable

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

Premium Assessments from Insured Credit Unions
During 2010, premium assessments were invoiced to all federally insured credit unions. These assessments are allowed under the NCUA Board's statutory authority. As of December 31, 2010, assessments that have not been received from credit unions were $2.0 million.

The allowance for doubtful accounts on the above public accounts receivable as of December 31, 2010, was zero.

5. OTHER – RECEIVABLES FROM ASSET MANAGEMENT ESTATES

As of December 31, 2010, the receivable from the AMEs was $920.9 million and the related allowance for loss was $777.6 million, for a net receivable from AMEs of $143.3 million. The activity in the allowance for losses for the year ended was as follows:

(Dollars in thousands)	For the Year Ended December 31, 2010
Beginning balance	$ 516,414
Increase in Allowance	221,099
Charges, Net	40,056
Ending balance	$ 777,569

6. OTHER LIABILITIES – INSURANCE AND GUARANTEE PROGRAM LIABILITIES

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

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

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 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 as of December 31, 2010, were approximately $75.5 million. There were no balances outstanding under these line-of-credit guarantees as of December 31, 2010. The carrying amount of the liability as of December 31, 2010, for the outstanding NCUSIF guarantees was $1.4 million. The guarantees expire in 2011.

On rare occasions, the NCUSIF may provide 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 were no such indemnification contingencies as of December 31, 2010.

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

(Dollars in thousands)	For the Year Ended December 31, 2010	
Beginning balance	$	715,846
Insurance Loss Expense		735,562
Insurance losses (claims) paid		(277,801)
Net Recovery/Claim on AME		51,674
Ending balance	$	1,225,281

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

- Specific reserves were $173.5 million. Specific reserves are identified for those credit unions where failure is imminent or where additional information is available that may affect the estimate of losses.
- General reserves were $1,051.8 million.

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

7. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

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

Intragovernmental Costs and Exchange Revenue	**For the Year Ended December 31, 2010**	
(Dollars in thousands)		
Intragovernmental Costs	$	162,410
Public Costs		738,982
Total		901,392
Intragovernmental Exchange Revenue		(397)
Public Exchange Revenue		(978,778)
Total		(979,175)
Net Cost/(Income)	$	(77,783)

Certain administrative services are provided to the NCUSIF by the NCUA Operating Fund. The NCUSIF is charged by the NCUA Operating Fund for these services based upon an annual allocation factor approved by the NCUA Board and derived from a study of actual usage. The allocation factor was 57.2% to NCUSIF for 2010. The cost of the services allocated to NCUSIF, which totaled approximately $113.6 million for 2010, is reflected as an expense in the Statement of Net Cost. These transactions are settled monthly. As of December 31, 2010, amounts due to the NCUA Operating Fund, for allocated administrative expenses were $2.9 million. The following table provides a breakdown of the administrative services provided to the NCUSIF by the NCUA Operating Fund.

Administrative Services Reimbursed to the National Credit Union Administration Operating Fund		**For the Year Ended December 31, 2010**
(Dollars in thousands)		
Employee Salaries	$	64,218
Employee Benefits		17,931
Employee Travel		12,912
Contracted Services		8,294
Administrative Costs		7,855
Rent, Communications, and Utilities		2,374
Total Services Provided by NCUA Operating Fund	$	113,584

8. AVAILABLE BORROWING AUTHORITY, END OF PERIOD

The NCUSIF shares $6.0 billion in borrowing authority from the U.S. Treasury with the TCCUSF. In addition, per the FCU Act, the NCUSIF is authorized to borrow from the CLF up to the amount of CLF's unused borrowing authority. CLF had $35.0 billion of full borrowing capacity under its note purchase agreement with the FFB, at year-end. At December 31, 2010, the NCUSIF had $41.0 billion in available borrowing authority.

9. DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

The Statement of Budgetary Resources discloses total budgetary resources available to the NCUSIF, and the status of resources as of December 31, 2010. Activity impacting budget totals of the overall Federal Government budget is recorded in NCUSIF's Statement of Budgetary Resources budgetary accounts. As of December 31, 2010, NCUSIF's resources in budgetary accounts were $20.8 billion and undelivered orders were $795 thousand. All liabilities are covered by budgetary resources, excluding the Insurance and Guarantee Program Liabilities, because they are contingent liabilities and do not require budgetary resources. All obligations incurred by NCUSIF are reimbursable. NCUSIF is exempt from OMB apportionment control.

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

10. CONTRIBUTED CAPITAL

The Credit Union Membership Access Act of 1998 (CUMAA) mandated changes to the NCUSIF's capitalization provisions effective January 1, 2000. Each insured credit union shall pay to and maintain with the NCUSIF a deposit in an amount equaling one percent of the credit union's insured shares. The amount of each insured credit union's deposit is 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 $50.0 million; and (ii) semiannually, in the case of an insured credit union with total assets of $50.0 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 one percent contribution is returned to the insured credit union in the event that its insurance coverage is terminated, or is obtained from another source, or the operations of the NCUSIF are transferred from the NCUA.

Beginning in 2000, the CUMAA mandated that dividends to insured credit unions 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 Board set the normal operating level at 1.30%. The calculated equity ratio as of December 31, 2010, was 1.28%, based on total insured shares as of December 31, 2010, of $757.9 billion. Total contributed capital as of December 31, 2010, was $7.5 billion.

The NCUSIF equity ratio is calculated as the ratio of contributed capital plus cumulative results of operations excluding net cumulative unrealized gains and losses on investments, to the aggregate amount of the insured shares in all insured credit unions.

11. FIDUCIARY ACTIVITIES

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

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

Schedule of Fiduciary Activity	For the Year Ended December 31, 2010	
(Dollars in thousands)		
Fiduciary Net Liabilities, beginning of year	$	(516,414)
Interest on Loans		8,545
Other Fiduciary Revenues		1,835
Professional & Outside Services Expenses		(7,906)
Compensation and Benefits		(2,989)
Other Expenses		(3,099)
Net Gain/(Loss) on Loans		(281,294)
Net Gain/(Loss) on Real Estate Owned		3,574
Other, Net Gain/(Loss)		16,484
Decrease / (Increase) in Fiduciary Net Liabilities		(264,850)
Fiduciary Net Liabilities, end of year	**$**	**(781,264)**

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

Schedule of Fiduciary Net Assets/Liabilities	As of December 31, 2010	
(Dollars in thousands)		
Fiduciary Assets		
Loans	$	120,271
Real Estate Owned		36,798
Other Fiduciary Assets		7,720
Total Fiduciary Assets		**164,789**
Fiduciary Liabilities		
Insured Shares		2,510
Accrued Liquidation Expenses		5,957
Unsecured Claims		12,851
Uninsured Shares		3,887
Due to NCUSIF		920,848
Total Fiduciary Liabilities		**946,053**
Total Fiduciary Net Assets/(Liabilities)	**$**	**(781,264)**

12. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

The Reconciliation of Net Cost of Operations to Budget explains the difference between the budgetary net obligations and the proprietary net cost of operations. As of December 31, 2010, the Reconciliation of Net Cost of Operations to Budget consisted of the following:

Reconciliation of Net Cost of Operations to Budget	**As of December 31, 2010**	
(Dollars in thousands)		
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Budgetary Obligations Incurred	$	10,390,054
Less: Spending Authority from Offsetting Collections and Change in Receivables from Federal Sources		(11,629,420)
Net Obligations		(1,239,366)
Other Resources:		
Change in Premiums Receivable from Insured Credit Unions		10,865
Change in Receivables from Asset Management Estates		61,161
Total Resources Used to Finance Activities		(1,167,340)
Resources Used to Fund Items Not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated for Goods and Services Not Yet Received		(32,531)
Change in Uncollected Customer Payments		(1,305)
Change in Capital Deposit Receivable from Insured Credit Unions		17,628
Change in Contributed Capital		418,020
Capital Deposits in Transit at Beginning of Year		(17,570)
Resources that Finance the Acquisition of Assets		(5,358)
Change in Accounts Receivable from Operating Fund		1,341
Change in Liability for Advances and Prepayments		(2,257)
Resources That Fund Expenses Recognized in Prior Periods		(23,993)
Total Resources Used to Fund Items Not Part of the Net Cost of Operations		353,975
Resources Used to Finance the Net Cost of Operations		(813,365)
Components of Net Cost of Operations that do not Require or Generate Resources During the Reporting Period:		
Depreciation Expense		20
Insurance Loss Expense		735,562
Total Components of Net Cost of Operations That Do Not Require or Generate Resources During the Reporting Period		735,582
Net Cost of (Income from) Operations	$	(77,783)

13. SUBSEQUENT EVENTS

Subsequent events have been evaluated from the balance sheet date through May 11, 2011, which is the date the financial statements were available to be issued. Management determined that there were no other items to disclose as of December 31, 2010.

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

Risk Assumed Information

As discussed previously herein, NCUA identifies credit unions at risk of failure through the supervisory and examination process, and estimates losses based upon economic trends and credit unions' financial condition and operations. The amount of reserves recognized for credit unions at risk of failure was $1.23 billion at December 31, 2010, due to the slow pace of economic recovery and concerns with real estate values, a negative trend in credit union CAMEL codes, the potential for a larger number of failures, and concern with the cost of failures. To maintain the fund's financial health, the NCUSIF assessed a premium of $930.0 million in 2010, to restore the NCUSIF's equity ratio to 1.3% of insured shares as of June 30, 2010.

KPMG

KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

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, 2010 and the related statements of net cost, and changes in net position, and statement of budgetary resources (hereinafter referred to as "the financial statements") for the year then ended, and have issued our report thereon dated May 11, 2011.

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 2010 audit, we considered the NCUSIF's internal control over financial reporting by obtaining an understanding of the NCUSIF's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the NCUSIF's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the NCUSIF's internal control over financial reporting. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the third paragraph of this report and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. In our fiscal year 2010 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Exhibit I presents the status of the prior year significant deficiency.

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

May 11 , 2011

Exhibit I

NATIONAL CREDIT UNION SHARE INSURANCE FUND

STATUS OF PRIOR YEAR FINDINGS

2009 Finding	Deficiency Type	2010 Status
Improvements Needed in Financial Accounting and Reporting Process	Significant Deficiency	Closed

KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

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, 2010, and the related statements of net cost, and changes in net position, and statement of budgetary resources (hereinafter referred to as "financial statements") for the year then ended, and have issued our report thereon dated May 11, 2011.

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 other 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

May 11, 2011