NCUA 2005
FINANCIAL STATEMENT AUDITS
FOR

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

For the year ended December 31, 2005

Audited Financial Statements	Audit Report Number
NCUA Operating Fund	OIG-06-01
National Credit Union Share Insurance Fund	OIG-06-02
Central Liquidity Facility	OIG-06-03
Community Development Revolving Loan Fund	OIG-06-04

March 31, 2006

William A. DeSarno

William A. DeSarno
Inspector General

EXECUTIVE SUMMARY

PURPOSE AND SCOPE The National Credit Union Administration (NCUA) Office of Inspector General contracted with the independent public accounting firm of Deloitte & Touche to perform the financial statement audits of the NCUA Operating Fund, the Share Insurance Fund, the Central Liquidity Facility, and the Community Development Revolving Loan Fund, for the year ended December 31, 2005.

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.

FINANCIAL STATEMENT CONTRACT The Inspector General contracted with Deloitte & Touche in August 2003 to perform the financial statement audits mentioned above. The contract was for 2003, with options for 2004 and 2005. The Inspector General was the contracting officer for this contract.

AUDIT RESULTS Deloitte & Touche expressed unqualified opinions, stating that the financial statements present fairly, in all material respects, the financial position of the NCUA Operating Fund, the Share Insurance Fund, the Central Liquidity Facility, and the Community Development Revolving Loan Fund, at December 31, 2005, and the results of operations for the year then ended.

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

Deloitte & Touche did not find any matters considered to be *material* weaknesses in their review of the Funds' internal control structures pertinent to financial reporting. However, during the performance of the audit, we developed recommendations related to internal control over financial reporting and certain observations and recommendations on other accounting, administrative, and operating matters. The observations and recommendations section of this report is restricted to official use only.

National Credit Union Administration Operating Fund

Financial Statements as of and for the Years Ended December 31, 2005 and 2004, and Independent Auditors' Reports

NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND

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INDEPENDENT AUDITORS' REPORT

To the Inspector General of
National Credit Union Administration:

We have audited the accompanying balance sheets of the National Credit Union Administration Operating Fund (the "Fund") as of December 31, 2005 and 2004, and the related statements of revenues, expenses, and changes in fund balance, and of cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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, such financial statements present fairly, in all material respects, the financial position of the National Credit Union Administration Operating Fund as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2006, on our consideration of the National Credit Union Administration Operating Fund's internal control over financial reporting and our tests of its compliance and other matters. The purpose of that report is to describe the scope of our testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

March 24, 2006

NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND

BALANCE SHEETS
AS OF DECEMBER 31, 2005 AND 2004
(Dollars in thousands)

	2005	2004
ASSETS		
Cash and cash equivalents	$ 26,730	$ 18,227
Due from National Credit Union Share Insurance Fund (Note 4)	133	150
Employee advances	835	540
Other accounts receivable (Note 5)	480	138
Prepaid expenses and other assets	681	706
Fixed assets—Net of accumulated depreciation and amortization (Note 3)	35,199	35,994
TOTAL	$ 64,058	$ 55,755
LIABILITIES AND FUND BALANCE		
LIABILITIES:		
Accounts payable	$ 6,399	$ 4,173
Obligations under capital leases (Note 6)	328	1,336
Accrued wages and benefits	6,391	2,381
Accrued annual leave	8,197	7,766
Accrued employee travel	20	21
Note payable to National Credit Union Share Insurance Fund (Note 4)	23,802	25,143
Total liabilities	45,137	40,820
FUND BALANCE	18,921	14,935
TOTAL	$ 64,058	$ 55,755

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(Dollars in thousands)

	2005	2004
REVENUES:		
Operating fees	$ 61,959	$ 50,714
Interest	1,332	581
Other	164	80
Total revenues	63,455	51,375
EXPENSES (Note 4):		
Employee wages and benefits	45,066	41,139
Travel	5,087	4,586
Rent, communications, and utilities	1,689	1,707
Contracted services	2,784	2,572
Other	4,843	3,683
Total expenses	59,469	53,687
EXCESS OF REVENUES OVER EXPENSES (EXPENSES OVER REVENUES)	3,986	(2,312)
FUND BALANCE—Beginning of year	14,935	17,247
FUND BALANCE—End of year	$ 18,921	$ 14,935

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(Dollars in thousands)

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of revenues over expenses (expenses over revenues)	$ 3,986	$ (2,312)
Adjustments to reconcile excess of revenues over expenses (expenses over revenues) to cash provided by (used in) operating activities:		
Depreciation and amortization	3,339	3,179
Loss on disposal of employee residences held for resale	108	115
Loss on disposal of fixed assets	2	44
(Increase) decrease in assets:		
Due from National Credit Union Share Insurance Fund	17	1,764
Employee advances	(295)	(201)
Other accounts receivable	(342)	51
Prepaid expenses	182	(321)
(Decrease) increase in liabilities:		
Accounts payable	2,226	(332)
Accrued wages and benefits	4,010	(3,074)
Accrued annual leave	431	(466)
Accrued employee travel	(1)	(56)
Net cash provided by (used in) operating activities	13,663	(1,609)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of fixed assets and employee residences held for resale	(3,499)	(3,325)
Proceeds from sale of employee residences held for resale	723	1,083
Net cash used in investing activities	(2,776)	(2,242)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of note payable	(1,341)	(1,341)
Principal payments under capital lease obligations	(1,043)	(1,031)
Net cash used in financing activities	(2,384)	(2,372)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,503	(6,223)
CASH AND CASH EQUIVALENTS—Beginning of year	18,227	24,450
CASH AND CASH EQUIVALENTS—End of year	$ 26,730	$ 18,227

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION—Interest paid during the years ended December 31, 2005 and 2004, was $ 626 and $512, respectively.

SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING ACTIVITIES—Capital lease obligations of $35 and $0 were incurred when the Fund entered into leases for new equipment during the years ended December 31, 2005 and 2004, respectively.

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION OPERATING FUND

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

1. ORGANIZATION AND PURPOSE

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

2. SIGNIFICANT ACCOUNTING POLICIES

Cash Equivalents—The Federal Credit Union Act permits the Fund to make investments in United States Government securities or securities guaranteed as to both principal and interest by the United States Government. Cash equivalents are highly liquid investments with original maturities of three months or less. All investments in 2005 and 2004 were cash equivalents and are stated at cost, which approximates fair value.

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

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

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

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

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

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

3. FIXED ASSETS

Fixed assets are comprised of the following (in thousands):

	2005	2004
Office building and land	$ 42,626	$ 42,626
Furniture and equipment	13,338	10,827
Equipment under capital leases	3,243	3,215
Total	59,207	56,668
Less accumulated depreciation and amortization	(24,008)	(20,674)
Fixed assets—net	$ 35,199	$ 35,994

Accumulated amortization balances for equipment under capital leases as of December 31, 2005 and 2004, were (in thousands) $2,909 and $2,000, respectively.

4. TRANSACTIONS WITH NCUSIF

Certain administrative services are provided by the Fund to NCUSIF. The Fund charges NCUSIF for these services based upon an annual allocation factor approved by the NCUA Board and derived from a study of actual usage. The allocation factor was 57.0% and 59.80% to NCUSIF for 2005 and 2004, respectively. The cost of the services allocated to NCUSIF, which totaled approximately $78,832,000 and $79,863,000 for 2005 and 2004, respectively, is reflected as a reduction of the corresponding expenses in the accompanying financial statements.

In 1992, the Fund entered into a commitment to borrow up to $41,975,000 in a thirty-year secured term note with NCUSIF. The monies were drawn as needed to fund the costs of constructing a building in 1993. Interest costs incurred were approximately $626,000 and $512,000 for 2005 and 2004, respectively. The note payable balances at December 31, 2005 and 2004, were approximately $23,802,000 and $25,143,000, respectively.

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

	Secured Term Note
2006	$ 1,341
2007	1,341
2008	1,341
2009	1,341
2010	1,341
Thereafter	17,097
	$ 23,802

The variable rate on the note is equal to NCUSIF's prior-month yield on investments. The average interest rates during 2005 and 2004, were 2.57% and 1.99%, respectively. The interest rates at December 31, 2005 and 2004, were 3.19% and 2.00%, respectively.

5. TRANSACTIONS WITH NCUA CLF

Certain administrative services are provided by the Fund to NCUA CLF. The Fund charges NCUA CLF for these services based upon rates approved by the NCUA Board. The costs of the services provided to NCUA CLF were $220,000 and $218,000 for 2005 and 2004, respectively. Other accounts receivable include approximately $91,000 of amounts due from NCUA CLF as of both December 31, 2005 and 2004.

6. LEASE COMMITMENTS

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

Operating Leases—The Fund leases office space under lease agreements that expire through 2008. Office rental charges amounted to approximately $793,582 and $1,018,000 of which approximately $452,324 and $608,580 was reimbursed by NCUSIF for 2005 and 2004, respectively. In addition, the Fund leases office equipment under operating leases with lease terms of less than one year.

The operating lease for the former Region IV (Chicago) regional office space was terminated early in May 2004 to coincide with the closing of that office. In accordance with lease agreement the termination cost was paid in the amount of $331,800.

Capital Leases—The Fund leases equipment under lease agreements that expire through 2008.

The future minimum lease payments as of December 31, 2005, are as follows (in thousands):

	Operating Leases	Capital Leases
2006	$ 732	$ 290
2007	663	25
2008	561	19
2009	575	6
2010	297	
Total	$ 2,828	340
Less imputed interest		(12)
Present value of minimum lease payments		$ 328

Based on the allocation factor approved by the NCUA Board for 2004, NCUSIF will reimburse the Fund for approximately 57.0% of the future operating lease payments.

7. RETIREMENT PLANS

The employees of the Fund are participants in the Civil Service Retirement and Disability Fund, which includes the Federal Employees' Retirement System ("FERS"). Both plans are defined benefit retirement plans covering all of the employees of the Fund. FERS is comprised of a Social Security Benefits Plan, a Basic Benefits Plan, and a Savings Plan. Contributions to the plans are based on a percentage of employees' gross pay. Under the Savings Plan, employees can also elect additional contributions between 1% and 15% of their gross pay, and the Fund will match up to 5% of the employees' gross pay. In 2005 and 2004, the Fund's contributions to the plans were approximately $11,060,000 and $10,561,000, respectively, of which approximately $6,304,000 and $6,315,000, respectively, were reimbursed by NCUSIF.

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

8. DISCLOSURES OF FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	December 31, 2005		December 31, 2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 26,730	$ 26,730	$ 18,227	$ 18,227
Due from NCUSIF	133	$ 133	150	150
Employee advances	835	$ 835	540	540
Other accounts receivable	480	$ 480	138	138
Accounts payable	6,399	$ 6,399	4,173	4,173
Obligation under capital lease	328	$ 328	1,336	1,336
Note payable to NCUSIF	23,802	$ 23,802	25,143	25,143

9. CONTINGENCIES

NCUA is currently a party to a number of disputes that involve or may involve litigation. The Fund records an estimated loss for unresolved disputes to the extent that such losses are probable and reasonably estimable. In 2005, $1,287,000 was accrued to reflect probable losses. Based on the allocation factor approved by the NCUA Board, the estimated costs to the Fund and NCUSIF are $553,000 and $734,000, respectively. In the opinion of management, the ultimate liability with respect to any other disputes, if any, will not be material to NCUA's financial position.

10. RESTRUCTURING

NCUA announced on January 29, 2003, a regional restructuring plan, previously approved by the Board on November 21, 2002. The restructuring plan relocated the Region VI office in Concord, California, to Tempe, Arizona, and renumbered it to Region V. The plan also closed the Region IV regional office in Chicago, Illinois. The Region IV relocation and its related costs began in early 2003 and were completed by June 2005. Region V, located in Austin, Texas, was renumbered to Region IV. Credit union supervision was aligned with the five regions and became effective as of January 1, 2004.

NCUA estimated that the costs to be incurred for the regional restructuring plan were $3,370,000, which included relocation costs of $1,597,000, and miscellaneous administrative and other costs of $1,773,000. Approximately $1,880,000 of these estimated costs related to 2004. Included in the cost estimate for 2004 are accrued costs that were to be expended in 2005. Based on the allocation factors approved by the NCUA Board, the Operating Fund was responsible for 40.20% of costs expended in 2004. Thus, the Fund's estimated cost for the regional restructuring plan in 2004 was approximately $756,000, and the NCUSIF's estimated cost for the regional restructuring plan in 2004 was $1,124,000. Substantially all costs have been incurred except for some final relocation costs for employees. In accordance with SFAS Statement No. 146, "Accounting for Costs Associated with Exit and Disposal Activities", accruals of approximately $29,000 and $270,000 for relocations remain in the Fund as of December 31, 2005 and 2004, respectively.

11. PURCHASE COMMITMENT

In December 2005, the Fund entered into a $4.2 million commitment for the acquisition of 1,620 laptop computers and peripheral equipment to be used by agency staff and state supervision authorities. The commitment includes $3.9 million for a 39 month capital lease, payable over 12 quarterly periods at $324,000 per quarter, starting April 1, 2006. The cost of the acquisition is shared with the NCUSIF, based upon computers used by the state supervision authorities, which will be approximately $1.1 million or 28 percent of the total cost.

12. HURRICANE RELATED MATTERS

As part of its regulatory relief and forbearance efforts for credit unions and their members impacted by hurricane activity during 2005, the NCUA Board will allow credit unions that are located in hurricane-affected areas to pay an operating fee that is based on assets that exclude hurricane-related Federal Emergency Management Agency and insurance payouts. In the opinion of management, this will not have a significant effect on 2006 operating fee collections.

National Credit Union Share Insurance Fund

Financial Statements as of and for the Years Ended December 31, 2005 and 2004, and Independent Auditors' Reports

NATIONAL CREDIT UNION SHARE INSURANCE FUND

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INDEPENDENT AUDITORS' REPORT

To the Inspector General of
National Credit Union Administration:

We have audited the accompanying balance sheets of the National Credit Union Share Insurance Fund (the "Fund") as of December 31, 2005 and 2004, and the related statements of operations, fund balance, and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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, such financial statements present fairly, in all material respects, the financial position of the National Credit Union Share Insurance Fund as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2006, on our consideration of National Credit Union Share Insurance Fund's internal control over financial reporting and our tests of its compliance and other matters. The purpose of that report is to describe the scope of our testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

March 24, 2006

NATIONAL CREDIT UNION SHARE INSURANCE FUND

BALANCE SHEETS
AS OF DECEMBER 31, 2005 AND 2004
(Dollars in thousands)

	2005	2004
ASSETS		
ASSETS:		
Investments (Note 6)	$ 4,808,210	$ 4,485,591
Cash and cash equivalents	1,798,763	1,872,174
Accrued interest receivable	52,102	38,246
Assets acquired in assistance to insured credit unions	17,588	16,627
Note receivable—National Credit Union Administration Operating Fund (Note 8)	23,802	25,143
Other notes receivable	1,740	1,558
Fixed assets—net of accumulated depreciation and amortization (Note 3)	104	518
TOTAL	$ 6,702,309	$ 6,439,857
LIABILITIES AND FUND BALANCE		
LIABILITIES:		
Estimated losses from supervised credit unions (Note 4)	$ 72,976	$ 67,126
Amounts due to insured shareholders of liquidated credit unions	8,257	11,601
Due to National Credit Union Administration Operating Fund (Note 8)	133	150
Cash assistance liability	2,357	1,078
Accounts payable	35	72
Obligations under capital leases (Note 9)	107	522
Total liabilities	83,865	80,549
FUND BALANCE:		
Insured credit unions' accumulated contributions	5,128,031	4,943,144
Insurance fund balance	1,490,413	1,416,164
Total fund balance	6,618,444	6,359,308
TOTAL	$ 6,702,309	$ 6,439,857

See notes to financial statements.

NATIONAL CREDIT UNION SHARE INSURANCE FUND

STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(Dollars in thousands)

	2005	2004
REVENUES:		
Interest	$ 175,017	$ 124,836
Other	645	515
Total revenues	175,662	125,351
EXPENSES (Note 8):		
Administrative expenses:		
Employee wages and benefits	59,739	61,196
Travel	6,743	6,822
Rent, communications, and utilities	2,239	2,539
Contracted services	3,691	3,827
Provision (reduction of allowance) for insurance losses (Note 4)	20,940	(3,424)
Other	8,061	7,021
Total expenses	101,413	77,981
EXCESS OF REVENUES OVER EXPENSES	$ 74,249	$ 47,370

See notes to financial statements.

NATIONAL CREDIT UNION SHARE INSURANCE FUND

STATEMENTS OF FUND BALANCE
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(Dollars in thousands)

	Insured Credit Unions' Accumulated Contributions	Insurance Fund Balance
BALANCE—JANUARY 1, 2004	$ 4,704,596	$ 1,368,794
Contributions from insured credit unions	238,548	
Excess of revenues over expenses		47,370
BALANCE—DECEMBER 31, 2004	4,943,144	1,416,164
Contributions from insured credit unions	184,887	
Excess of revenues over expenses		74,249
BALANCE—DECEMBER 31, 2005	$ 5,128,031	$ 1,490,413

See notes to financial statements.

NATIONAL CREDIT UNION SHARE INSURANCE FUND

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(Dollars in thousands)

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of revenues over expenses	$ 74,249	$ 47,370
Adjustments to reconcile excess of revenues over expenses to cash provided by operating activities:		
Depreciation and amortization	414	416
Amortization of premiums and discounts on investments - net	49,022	98,206
Reserves (recoveries) relating to losses from supervised credit unions—net	5,850	(9,541)
Decrease (increase) in assets:		
Accrued interest receivable	(13,856)	7,515
Assets acquired in assistance to insured credit unions—net	(961)	(4,410)
NCUSIF subordinated notes		1,711
Other notes receivable	(182)	(678)
Increase (decrease) in liabilities:		
Amounts due to National Credit Union Administration Operating Fund	(17)	(1,764)
Amounts due to insured shareholders of liquidated credit unions	(3,344)	2,060
Accounts payable	(37)	69
Cash assistance liability	1,279	978
Net cash provided by operating activities	112,417	141,932
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(2,271,641)	(2,374,187)
Proceeds from maturities of investments	1,900,000	2,500,000
Collections on note receivable—National Credit Union Administration Operating Fund	1,341	1,341
Net cash (used in) provided by investing activities	(370,300)	127,154
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions from insured credit unions	184,887	238,548
Principal payments under capital lease obligation	(415)	(414)
Net cash provided by financing activities	184,472	238,134
NET INCREASE IN CASH AND CASH EQUIVALENTS	(73,411)	507,220
CASH AND CASH EQUIVALENTS—Beginning of year	1,872,174	1,364,954
CASH AND CASH EQUIVALENTS—End of year	$ 1,798,763	$ 1,872,174

See notes to financial statements.

NATIONAL CREDIT UNION SHARE INSURANCE FUND

NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

1. ORGANIZATION AND PURPOSE

The National Credit Union Share Insurance Fund (the "Fund" or "NCUSIF") was created by the Public Law 91-468 (Title II of the Federal Credit Union Act), which was amended in 1984 by Public Law 98-369. 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 insuring member share deposits in all federal credit unions and in qualifying state credit unions that request insurance. The maximum amount of insurance is $100,000 per shareholder account.

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

Credit unions experiencing financial difficulties may be assisted by the Fund in continuing their operations if these difficulties are considered by the Fund to be temporary or correctable. This special assistance may be in the form of a waiver of statutory reserve requirements, a guarantee account, and/or cash assistance. If continuation of the credit union's operations with Fund assistance is not feasible, a merger partner may be sought. If the assistance or merger alternatives are not practical, the credit union is liquidated.

The first form of special assistance is waivers of statutory reserve requirements, whereby the credit union is permitted to cease making additions to its regular reserve and, in more severe cases, to commence charging operating losses against its regular reserve. When all reserves have been depleted by the credit union, the Fund may provide a reserve guarantee account in the amount of the reserve deficit. In addition, the Fund may provide cash assistance in the form of share deposits and NCUSIF subordinated notes, or may purchase assets from the credit union.

Mergers of financially troubled credit unions with stronger credit unions may also require Fund assistance. Merger assistance may be in the form of cash assistance, purchase of certain assets by the Fund, 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 Fund will liquidate the credit union, dispose of its assets, and pay members' shares up to the maximum insured amount. The values of certain assets sold (primarily loans) are sometimes guaranteed to third-party purchasers by the Fund.

2. SIGNIFICANT ACCOUNTING POLICIES

Cash Equivalents and Investments—Title II of the Federal Credit Union Act limits the Fund's investments to United States Government securities or securities guaranteed as to both principal and interest by the United States Government. Cash equivalents are highly liquid investments with original maturities of three months or less. All investments are classified as held-to-maturity under Statement of Financial Standards No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. Accordingly, the Fund records investments at amortized cost. Amortized cost is the face value of the securities plus the unamortized premium or less the unamortized discount.

Depreciation and Amortization—Furniture, equipment and capital leases are recorded at cost. Depreciation and amortization are computed by the straight-line method over the estimated useful lives of the furniture and equipment and the shorter of the estimated useful life or lease term for capital leases. Estimated useful lives are three years for the furniture, equipment and capital leases.

Advances to Insured Credit Unions—The Fund provides cash assistance in the form of interest and noninterest-bearing NCUSIF ("National Credit Union Share Insurance Fund") subordinated notes (carried at face value), share deposits, and loans to certain credit unions to assist them in continuing their operations.

Assets Acquired in Assistance to Insured Credit Unions—The Fund acquires the assets of liquidating credit unions pending their ultimate disposition. To assist in the merger of credit unions, the Fund may purchase certain credit union assets. In addition, the Fund may provide cash assistance by acquiring non-performing assets of a credit union experiencing financial difficulty. These acquired assets are maintained by the Asset Management and Assistance Center in Austin, Texas, and are recorded by the Fund at their estimated net realizable value.

Premium Revenue—The Fund may assess each insured credit union a premium charge for insurance in an amount stated as a percentage of insured shares outstanding as of December 31 of the preceding insurance year if the Fund's equity ratio is less than 1.3%. The NCUA Board waived the 2005 and 2004 share insurance premiums (see Note 5).

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

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

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

Investments—The fair value for investments is the quoted market value.

Other Notes Receivable—It is not practicable to estimate the fair value of these assets as there is no secondary market. The Fund has the ability and the intention to hold any such notes to maturity.

Other—Accrued interest receivable, other accounts receivable, note receivable from NCUA Operating Fund, due to NCUA Operating Fund, capital lease obligations, due to insured shareholders of liquidated credit unions, and accounts payable are recorded at book values, which approximate the respective fair values.

Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions, particularly the estimated losses from supervised credit unions, that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's estimates. The more significant estimates include the estimated losses from supervised credit unions and the allowance for loss on assets acquired in assistance to insured credit unions.

Reclassifications—Certain 2004 balances have been reclassified to conform to the 2005 presentation.

3. FIXED ASSETS

At December 31, 2005 and 2004, fixed assets are comprised of the following (in thousands):

	2005	2004
Furniture and equipment	$ 500	$ 500
Equipment under capital leases	1,237	1,240
Total	1,737	1,740
Less—Accumulated depreciation and amortization	(1,633)	(1,222)
Total fixed assets—net	$ 104	$ 518

Accumulated amortization balances for equipment under capital leases as of December 31, 2005 and 2004, totaled (in thousands) $1,133 and $723, respectively.

4. PROVISION FOR INSURANCE LOSSES

Management identifies credit unions experiencing financial difficulty through NCUA's supervisory and examination process. The estimated losses from these supervised credit unions are determined by management on a specified case basis. Management also evaluates overall economic trends and monitors potential system-wide risk factors such as increasing levels of consumer debt, bankruptcies, and delinquencies. NCUA applies a rating system to assess a credit union's financial condition and operations in the areas of Capital Adequacy, Asset Quality, Management, Earnings, and Asset/Liability Management ("CAMEL"). The CAMEL Rating System is a tool to measure risk and allocate resources for supervisory purposes. The NCUA periodically reviews the CAMEL Rating System to respond to continuing economic and regulatory changes in the credit union industry. During 2004, NCUA developed a new model of determining reserve requirements. For non-specified case reserve requirements, risk profile categories are established based on the CAMEL ratings of problem credit unions, and probable failure and loss rates are applied based on historical data. The anticipated losses are net of estimated recoveries from the disposition of the assets of failed credit unions.

Total insurance in force as of December 31, 2005 and 2004, is $516.6 billion and $500 billion, respectively, which includes natural person and corporate credit unions. The total net reserves for identified and anticipated losses from supervised credit unions' failures are $73 million and $67 million at December 31, 2005 and 2004, respectively. Should there be no recoveries provided during the resolution process, potential additional reserves for $10 million would be required as of December 31, 2005.

In exercising its supervisory function, the Fund will, at times, extend guarantees of assets (primarily loans) to third-party purchasers or to credit unions to facilitate mergers. The Fund would be obligated upon non-performance. Such guarantees totaled approximately $0 at both December 31, 2005 and 2004. The estimated losses from asset and merger guarantees are determined by management on a case-by-case evaluation.

In addition, the Fund may grant a guaranteed line-of-credit to a third party credit provider, such as a corporate credit union or bank, if a credit union has a current or immediate liquidity concern and the credit provider has refused to extend credit without a guarantee. The Fund would be obligated if the credit union failed to perform. Total line-of-credit guarantees of credit unions at December 31, 2005 and 2004, are approximately $2.2 million and $0, respectively. The total balances outstanding under these line-of-credit guarantees at December 31, 2005 and 2004, are approximately $2.1 million and $0, respectively.

From time to time, the Fund provides indemnifications in merger assistance agreements to acquiring credit unions. Such indemnifications make the Fund contingently liable based on the outcome of legal actions. As of December 31, 2005, outstanding indemnification contingencies total approximately $1.4 million. No such indemnification contingencies existed as of December 31, 2004.The activity in the reserves for estimated losses from supervised credit unions for the years ended December 31, 2005 and 2004, was as follows (in thousands):

	2005	2004
Beginning Balance	$ 67,126	$ 76,667
Insurance losses	(24,177)	(17,660)
Recoveries	9,087	11,543
Provision (reduction of allowance) for insurance losses	20,940	(3,424)
Ending Balance	$ 72,976	$ 67,126

5. FUND CAPITALIZATION

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

The CUMAA mandates certain premium charges from insured credit unions and distributions from the Fund under certain circumstances. A premium charge to insured credit unions is required if the Fund's equity ratio (as defined in the CUMAA) falls below 1.2% of insured shares. Also, pro rata distributions to insured credit unions after each calendar year are required if, as of year-end:

(i) Any loans to the Fund from the Federal Government, and any interest on those loans, have been repaid;

(ii) The Fund's equity ratio exceeds the normal operating level (as defined in the CUMAA, an equity ratio specified by the NCUA Board, which shall be not less than 1.2% and not more than 1.5%); and

(iii) The Fund's available assets ratio, as defined in the CUMAA, exceeds 1.0%.

The NCUA Board has determined that the normal operating level is 1.30% at December 31, 2005 and 2004. The calculated equity ratios at December 31, 2005 and 2004 were 1.28% and 1.27%, respectively.

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

The NCUA Board has declared that no dividends were payable on insured shares as of December 31, 2005 and 2004, because the equity ratios of 1.28% and 1.27%, respectively, were below the normal operating level of 1.30%. Total insured shares as of December 31, 2005 and 2004, were $516.6 billion and $500 billion, respectively.

6. INVESTMENTS

All cash received by the Fund that is not used for outlays related to assistance to insured credit unions and liquidation activities is invested in U.S. Treasury securities.

At December 31, 2005 and 2004, investments consist of the following (in thousands):

	December 31, 2005				
	Yield to Maturity at Market (At Purchase Date)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Treasury Securities:					
Maturities up to one year	2.38 %	$ 2,308,827	$	$ (21,265)	$ 2,287,562
Maturities after one year through five years	3.26 %	2,499,383		(35,367)	2,464,016
Total		$ 4,808,210	$	$ (56,632)	$ 4,751,578

	December 31, 2004				
	Yield to Maturity at Market (At Purchase Date)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Treasury Securities:					
Maturities up to one year	1.76 %	$ 2,015,675	$ 190	$ (8,428)	$ 2,007,437
Maturities after one year through five years	2.30	2,469,916		(29,977)	2,439,939
Total		$ 4,485,591	$ 190	$ (38,405)	$ 4,447,376

Total investment purchases during 2005 and 2004 were approximately $2.3 billion and $2.4 billion, respectively. Investment maturities during 2005 and 2004 were approximately $1.9 billion and $2.5 billion, respectively. The Fund has the capability and management has the intention to hold all investments held at December 31, 2005 and 2004 to maturity. There were no investment sales during 2005 and 2004.

7. AVAILABLE BORROWINGS

The Fund is authorized by the Federal Credit Union Act to borrow from the Treasury of the United States, upon authorization by the NCUA Board, up to a maximum of $100,000,000. The NCUA Central Liquidity Facility (“CLF”) is authorized to make advances to the Fund under terms and conditions established by the NCUA Board. No borrowings were obtained from these sources during 2005 and 2004.

8. TRANSACTIONS WITH NCUA OPERATING FUND

Substantial administrative services are provided to the Fund by the NCUA Operating Fund. The NCUA Operating Fund charges the Fund for these services based on an annual allocation factor approved by the NCUA Board and derived from a study of actual usage conducted by the management of these Funds. The allocation factor was 57% and 59.8% to the Fund for 2005 and 2004, respectively. The cost of services provided by the NCUA Operating Fund was approximately $78,832,000 and $79,863,000 for 2005 and 2004, respectively, and includes pension contributions of approximately $6,304,000 and $6,315,000 to the Civil Service Retirement System and Federal Employees Retirement System defined benefit retirement plans for 2005 and 2004, respectively.

In 1992, the Fund entered into a commitment to fund up to $41,975,000 through a thirty-year secured term note with the NCUA Operating Fund. The monies were advanced to the NCUA Operating Fund as needed to fund the costs of constructing a building. Interest income was approximately $626,000 and $512,000 for 2005 and 2004, respectively. The note receivable balances at December 31, 2005 and 2004, were approximately $23,802,000 and $25,143,000, respectively.

The above note matures as follows (in thousands):

	Term Note
2006	$ 1,341
2007	1,341
2008	1,341
2009	1,341
2010	1,341
Thereafter	17,097
Total	$ 23,802

The variable rate on the term note is equal to the Fund's prior-month yield on investments. The average interest rates during 2005 and 2004 were approximately 2.57% and 1.99%, respectively. At December 31, 2005 and 2004, the rates were 3.19% and 2.00%, respectively.

The NCUA Operating Fund leases certain office space and equipment under operating lease agreements that expire through 2008. Based on the allocation factor determined by the NCUA's Board, the Fund reimburses the NCUA Operating Fund approximately 57% of the total lease payments. The cost of services provided by the NCUA Operating Fund includes rental charges of approximately $452,000 and $608,580 for 2005 and 2004, respectively.

The Fund's allocation of the NCUA Operating Fund's total future minimum lease payments on operating leases as of December 31, 2005, is expected to be as follows (in thousands):

	Total
2006	$ 417
2007	378
2008	320
2009	328
2010	169
Total	$ 1,612

9. LEASE COMMITMENTS

Description of Leasing Agreements—The Fund has entered into lease agreements with vendors for the lease of equipment that includes computers, laptops, and printers. The Fund leases computer equipment under capital lease agreements that expire through 2006.

The future minimum lease payments as of December 31, 2005, are $107 (in thousands).

10. DISCLOSURE OF FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	December 31, 2005		December 31, 2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Investments	$ 4,808,210	$ 4,751,578	$ 4,485,591	$ 4,447,376
Cash and cash equivalents	1,798,763	1,798,763	1,872,174	1,872,174
Accrued interest receivable	52,102	52,102	38,246	38,246
Notes receivable—NCUA Operating Fund	23,802	23,802	25,143	25,143
Other notes receivable	1,740	1,740	1,558	1,558
Amounts due to insured shareholders of liquidated credit unions	8,257	8,257	11,601	11,601
Due to NCUA Operating Fund	133	133	150	150
Capital assistance liability	2,357	2,357	1,078	1,078
Accounts payable	35	35	72	72
Obligations under capital leases	107	107	522	522

11. CONCENTRATIONS

There are no significant concentrations of member share deposits within any region of the United States. Concentrations of member shares do exist within the manufacturing, governmental, and educational industries.

12. CONTINGENCIES

NCUA is currently a party to a number of disputes that involve or may involve litigation. NCUA records an estimated loss for unresolved disputes to the extent that such losses are probable and reasonably estimable. In 2005, $1,287,000 was accrued by the NCUA Operating Fund to reflect probable losses. Based on the allocation factor approved by the NCUA Board, the estimated cost to the NCUA Operating Fund and the Fund is $553,000 and $734,000, respectively. In the opinion of management, the ultimate liability with respect to any other disputes, if any, will not be material to NCUA's financial position.

13. RESTRUCTURING

NCUA announced on January 29, 2003, a regional restructuring plan, previously approved by the Board on November 21, 2002. The restructuring plan relocated the Region VI office in Concord, California, to Tempe, Arizona, and renumbered it to Region V. The plan also closed the Region IV regional office in Chicago, Illinois. The Region IV relocation and its related costs began in early 2003 and were completed by June 2005. Region V, located in Austin, Texas, was renumbered to Region IV. Credit union supervision was aligned with the five regions and became effective as of January 1, 2004.

NCUA estimated that the costs to be incurred for the regional restructuring plan were $3,370,000, which included relocation costs of $1,597,000, and miscellaneous administrative and other costs of $1,773,000. Approximately $1,880,000 of these estimated costs related to 2004. Included in the cost estimate for 2004 are accrued costs that were to be expended in 2005. Based on the allocation factors approved by the NCUA Board, the Operating Fund was responsible for 40.20% of costs expended in 2004. Thus, the Operating Fund's estimated cost for the regional restructuring plan in 2004 was approximately $756,000, and the NCUSIF's estimated cost for the regional restructuring plan in 2004 was $1,124,000. Substantially all costs have been incurred except for some final relocation costs for employees. In accordance with SFAS Statement No. 146, "Accounting for Costs Associated with Exit and Disposal Activities," accruals of approximately $29,000 and $270,000 for relocations remain in the Fund as of December 31, 2005 and 2004, respectively.

14. PURCHASE COMMITMENT

In December 2005, the NCUA Operating Fund entered into a $4.2 million commitment for the acquisition of 1,620 laptop computers and peripheral equipment to be used by agency staff and state supervision authorities. The commitment included $3.9 million for a 39 month capital lease, payable over 12 quarterly periods at $324,000, starting April 1, 2006. The cost of the acquisition is shared with the Fund, based upon computers used by the state supervision authorities, which will be approximately $1.1 million or 28 percent.

15. HURRICANE RELATED MATTERS

As part of its regulatory relief and forbearance efforts for credit union and their members impacted by hurricane activity during 2005, the NCUA, jointly with the banking agencies that regulate FDIC-insured institutions, issued a temporary ruling (Joint Release 9/2/05) that allows federal credit unions to provide assistance consistent with safe and sound practices. In the opinion of management, this will not have a significant effect on the Fund's financial position or operations.

16. SUBSEQUENT EVENTS

In January 2006, the Fund refunded $17 million in 1% capitalization deposits due to the conversion of two federally insured state credit unions to mutual savings banks.

On February 8, 2006, the President signed legislation impacting the Fund. The Federal Deposit Insurance Reform Act of 2005, along with the Federal Deposit Insurance Reform Conforming Amendments Act of 2005, provide for certain change to insurance coverage provided by the Fund. On March 17, 2006, the NCUA Board issued an interim final rule amending share insurance to clarify coverage and implement changes required by the legislation.

The interim final rule, which is effective April 1, 2006, provides the following:

(i.) Increases share insurance limits to $250,000 for retirement accounts such as Traditional and Roth IRAs (Individual Retirement Accounts) and Keogh accounts;

(ii.) Retains the $100,000 insurance limit for all other types of share accounts;

(iii.) Requires NCUA and the Federal Deposit Insurance Corporation ("FDIC") to jointly determine if an inflation-adjusted increase is appropriate for insured accounts beginning in 2010 and every five years thereafter;

(iv.) Includes pass-through coverage on employee benefit plans while limiting acceptance of shares in employee benefit plans to insured credit unions that are well or adequately capitalized; and

(v.) Clarifies coverage for qualified tuition programs, commonly referred to as 529 plans, and share accounts denominated in foreign currencies.

NCUA and FDIC coordinated their share and deposit insurance interim rules regarding coverage amounts. While retirement accounts gain increased coverage, the rule retains the provision that retirement accounts are insured separately from other accounts at the same institution. NCUA issued the interim final rule with a 60-day comment period.

* * * * * *

National Credit Union Administration Central Liquidity Facility

Financial Statements as of and for the Years Ended December 31, 2005 and 2004, and Independent Auditors' Reports

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

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INDEPENDENT AUDITORS' REPORT

To the Inspector General of
National Credit Union Administration:

We have audited the accompanying balance sheets of the National Credit Union Administration Central Liquidity Facility ("CLF") as of December 31, 2005 and 2004, and the related statements of operations, members' equity, and cash flows for the years then ended. These financial statements are the responsibility of CLF's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of the National Credit Union Administration Central Liquidity Facility as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2006, on our consideration of National Credit Union Administration Central Liquidity Facility's internal control over financial reporting and our tests of its compliance and other matters. The purpose of that report is to describe the scope of our testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

March 24, 2006

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

BALANCE SHEETS
AS OF DECEMBER 31, 2005 AND 2004
(In thousands)

ASSETS	2005	2004
ASSETS:		
Cash	$ 10	$ 10
Investments with U.S. Central Federal Credit Union (Notes 5, 8, and 9)	1,470,390	1,357,028
Accrued interest receivable	14,557	6,533
TOTAL	$ 1,484,957	$ 1,363,571

LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES:		
Accounts payable and other liabilities	$ 120	$ 108
Dividends payable (Note 7)	14,475	6,478
Member deposits (Note 7)	509	232
Total liabilities	15,104	6,818
MEMBERS' EQUITY:		
Capital stock—required (Note 7)	1,458,445	1,345,345
Retained earnings	11,408	11,408
Total members' equity	1,469,853	1,356,753
TOTAL	$ 1,484,957	$ 1,363,571

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(In thousands)

	2005	2004
REVENUE—Investment income	$ 46,985	$ 19,371
EXPENSES (Note 10):		
Operating expenses:		
Group agent service fee	1	1
Personnel services	135	129
Other services	42	41
Rent, communications, and utilities	7	8
Personnel benefits	34	32
Supplies and materials	3	2
Printing and reproduction	6	3
Total operating expenses	228	216
Interest-liquidity reserve	13	49
Total expenses	241	265
EXCESS OF REVENUE OVER EXPENSES	$ 46,744	$ 19,106

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

STATEMENTS OF MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(In thousands)

	Capital Stock	Retained Earnings
BALANCE—December 31, 2003	$1,218,654	$ 11,407
Issuance of required capital stock	128,900	
Redemption of required capital stock	(2,209)	
Dividends		(19,105)
Excess of revenue over expenses		19,106
BALANCE—December 31, 2004	1,345,345	11,408
Issuance of required capital stock	113,554	
Redemption of required capital stock	(454)	
Dividends		(46,744)
Excess of revenue over expenses		46,744
BALANCE—December 31, 2005	$1,458,445	$ 11,408

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(In thousands)

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of revenue over expenses	$ 46,744	$ 19,106
Adjustments to reconcile excess of revenue over expenses to net cash provided by operating activities:		
(Increase) decrease in accrued interest receivable	(8,024)	(2,880)
(Decrease) increase in accounts payable and other liabilities	12	(28)
Net cash provided by operating activities	38,732	16,198
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments—net	(113,362)	(118,972)
Net cash used in investing activities	(113,362)	(118,972)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Additions to member deposits	864	516
Issuance of required capital stock	113,554	128,900
Dividends	(38,747)	(16,193)
Withdrawal of member deposits	(587)	(8,240)
Redemption of required capital stock	(454)	(2,209)
Net cash provided by financing activities	74,630	102,774
NET DECREASE IN CASH		
CASH—Beginning of year	10	10
CASH—End of year	$ 10	$ 10
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION—Cash paid during the year for—		
Interest	$ 13	$ 49

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

1. ORGANIZATION AND PURPOSE

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

The purpose of the CLF is to improve general financial stability by meeting the liquidity needs of credit unions. The CLF is a tax-exempt organization under Section 501(c)(1) of the Internal Revenue Code.

2. SIGNIFICANT ACCOUNTING POLICIES

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

Loans and Allowance for Loan Losses—Loans, when made to members, are on a short-term or long-term basis. For all loans, the CLF may obtain a security interest in the assets of the borrower. In determining the allowance for loan losses, when applicable, the CLF evaluates the collectibility of its loans to members through examination of the financial condition of the individual borrowing credit unions and the credit union industry in general.

Funds on Deposit with U.S. Central Federal Credit Union—The CLF invests in redeposits and share accounts at U.S. Central Federal Credit Union (see Notes 5 and 8). These are non-transferable, non-negotiable instruments that are acquired at face value and carried at cost.

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

Cash—The carrying amounts for cash approximate fair value.

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

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

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

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

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

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

3. GOVERNMENT REGULATIONS

The CLF is subject to various Federal laws and regulations. The CLF's operating budget requires Congressional approval, and the CLF may not make loans to members for the purpose of expanding credit union loan portfolios. The CLF's investments are restricted to obligations of the United States Government and its agencies, deposits in Federally insured financial institutions, and shares and deposits in credit unions. Borrowing is limited by statute to twelve times the subscribed capital stock and surplus. However, there is a Congressional limitation of $1.5 billion on funds that are borrowed and then loaned out to credit unions at any one point in time.

At December 31, 2005 and 2004, the CLF was in compliance with its borrowing authority. Borrowings would be from the Federal Financing Bank with interest generally payable upon maturity (see Notes 6 and 12).

4. LOANS TO MEMBERS

There were no loans or loan commitments outstanding at December 31, 2005 and 2004. The CLF can provide members with extended loan commitments.

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

Funds not currently required for operations are invested as follows (in thousands):

	December 31, 2005	December 31, 2004
U.S. Central Federal Credit Union Redeposit Account	$1,468,390	$1,357,028
U.S. Central Federal Credit Union Share Certificates	2,000	
	$1,470,390	$1,357,028

A Memorandum of Understanding ("MOU"), effective July 1, 2005, sets forth the understanding of CLF and the U.S. Central Federal Credit Union ("USC") concerning the investments by the CLF in USC Share Accounts and Certificates. This MOU supersedes and replaces the MOU effective July 1, 2002, between the CLF and USC.

As provided in the MOU, all investments by the CLF in shares of USC will be in either Share Account or Share Certificates. The Share Account is a three month, fixed rate account that provides for automatic re-investment at maturity and daily availability of funds with no penalty for early withdrawal. The Share Account is only available to the CLF. In the event of liquidation of the USC, shares in the account will be redeemable in full, prior to the redemption of any other shares of the USC.

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

6. BORROWING AUTHORITY

The CLF is authorized by statute to borrow, from any source, an amount not to exceed twelve times its subscribed capital stock and surplus. Congress restricted CLF's borrowing authority to $1.5 billion for the fiscal years 2004, 2005 and 2006, for the principal amount of new direct loans to member credit unions. Borrowings would be from the Federal Financing Bank with interest generally payable upon maturity (see Note 12).

The Secretary of the Treasury is authorized by the Act to lend up to $500 million to the CLF in the event that the Board certifies to the Secretary that the CLF does not have sufficient funds to meet the liquidity needs of credit unions. This authority to lend is limited to such extent and in such amounts as are provided in advance by Congressional Appropriation Acts. On December 23, 1981, the President signed PL 97-101, which provided $100 million of permanent indefinite borrowing authority that may be provided by the Secretary of the Treasury to the CLF to meet emergency liquidity needs of credit unions.

7. CAPITAL STOCK AND MEMBER DEPOSITS

The required capital stock account represents subscriptions remitted to the 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 the 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 the CLF. In both cases, the remaining one-half of the subscription is required to be held in liquid assets by the member credit unions subject to call by the National Credit Union Administration Board. These unremitted subscriptions are not reflected in the CLF's financial statements. Subscriptions are adjusted annually to reflect changes in the member credit unions' paid-in and unimpaired capital and surplus. Dividends are declared and paid on required capital stock.

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

Dividends payable represents dividends declared in 2005 to be paid in 2006.

8. U.S. CENTRAL FEDERAL CREDIT UNION MEMBERSHIP

During fiscal year 1984, the CLF accepted a membership request from U.S. Central Federal Credit Union ("USC") on behalf of its corporate credit union members. At December 31, 2005 and 2004, $1,401,373,000 and $1,292,059,000, respectively, of the required portion of subscribed capital stock were purchased from the CLF by USC on behalf of member credit unions of its corporate credit union members. The USC has 29 corporate credit union members as of both December 31, 2005 and 2004.

The CLF reinvests all of its agent member share capital in USC at market rates of interest. At December 31, 2005 and 2004, approximately $1,470,390,000 and $1,357,028,000, respectively, were invested in USC accounts at 3.92% and 1.91%, respective yields.

9. CONCENTRATION OF CREDIT RISK

At December 31, 2005 and 2004, the CLF has a concentration of credit risk for its investments on deposit with USC of approximately $1,470,390,000 and $1,357,028,000, respectively (see Notes 5 and 8).

10. SERVICES PROVIDED BY THE NATIONAL CREDIT UNION ADMINISTRATION

The National Credit Union Administration provides the CLF with data processing and other miscellaneous services and supplies. In addition, the National Credit Union Administration pays CLF's employees' salaries and benefits as well as the CLF's portion of monthly building operating costs. The CLF reimburses the National Credit Union Administration on a monthly basis for these items. The total amounts charged by the National Credit Union Administration were approximately $220,000 and $218,000 for the years ended December 31, 2005 and 2004, respectively. As of both December 31, 2005 and 2004, accounts payable and other liabilities include approximately $91,000 due to the National Credit Union Administration Operating Fund for services provided.

11. DISCLOSURE OF FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	December 31, 2005		December 31, 2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash	$ 10	$ 10	$ 10	$ 10
Funds on deposit with U.S. Central Federal Credit Union	1,470,390	1,470,345	1,357,028	1,357,028
Accrued interest receivable	14,557	14,557	6,533	6,533
Member Deposits	509	509	232	232
Dividends Payable	14,475	14,475	6,478	6,478
Accounts payable and other liabilities	120	120	108	108

12. SHORT-TERM REVOLVING CREDIT FACILITY

On July 15, 1999, the National Credit Union Administration signed a note purchase agreement with the Federal Financing Bank on behalf of CLF. The first promissory note under that note purchase agreement originally provided for a commitment amount of $20.7 billion. Subsequently, the note purchase agreement expired on September 30, 2000, and was extended through amendments annually. These promissory notes reduced the credit facility to $5 billion and expire yearly on the 31st of March. The current promissory note expires March 31, 2006.

* * * * * *

National Credit Union Administration Community Development Revolving Loan Fund

Financial Statements
as of and for the Years Ended
December 31, 2005 and 2004, and
Independent Auditors' Reports

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

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INDEPENDENT AUDITORS' REPORT

To the Inspector General of
National Credit Union Administration:

We have audited the accompanying balance sheets of the National Credit Union Administration Community Development Revolving Loan Fund ("CDRLF") as of December 31, 2005 and 2004, and the related statements of operations, changes in fund balance, and cash flows for the years then ended. These financial statements are the responsibility of the 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 and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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, such financial statements present fairly, in all material respects, the financial position of the National Credit Union Administration Community Development Revolving Loan Fund as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2006, on our consideration of National Credit Union Administration Community Development Revolving Loan Fund's internal control over financial reporting and our tests of its compliance and other matters. The purpose of that report is to describe the scope of our testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

March 24, 2006

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

BALANCE SHEETS
AS OF DECEMBER 31, 2005 AND 2004

	2005	2004
ASSETS		
Cash and cash equivalents (Note 2)	$11,959,875	$10,036,466
Loans—Net of allowance (Note 4)	4,554,047	5,017,156
Interest receivable	11,293	17,057
TOTAL	$16,525,215	$15,070,679
LIABILITIES AND FUND BALANCE		
LIABILITIES:		
Accrued technical assistance	$ 837,265	$ 727,301
Total liabilities	837,265	727,301
FUND BALANCE:		
Revolving fund capital (Note 3)	14,337,778	13,189,378
Accumulated earnings	1,350,172	1,154,000
Total fund balance	15,687,950	14,343,378
TOTAL	$16,525,215	$15,070,679

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004
SUPPORT AND REVENUES:		
Interest on cash equivalents	$ 274,095	$ 122,229
Interest on loans	52,700	66,193
Appropriation revenue	793,600	1,035,138
Total	1,120,395	1,223,560
EXPENSES:		
Technical assistance	(886,865)	(1,207,052)
Reduction of allowance for loan losses	(37,358)	31,718
Total	(924,223)	(1,175,334)
EXCESS OF SUPPORT AND REVENUES OVER EXPENSES	$ 196,172	$ 48,226

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

STATEMENTS OF CHANGES IN FUND BALANCE
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004
FUND BALANCE—Beginning of year	$14,343,378	$14,137,370
Change in unexpended appropriations:		
Operating appropriations received (Note 3)	1,942,000	1,192,920
Appropriation revenue recognized (Note 3)	(793,600)	(1,035,138)
Excess of support and revenues over expenses	196,172	48,226
FUND BALANCE—End of year	$15,687,950	$14,343,378

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of support and revenues over expenses	$ 196,172	$ 48,226
Adjustments to reconcile the excess of support and revenues over expenses to net cash used in operating activities:		
Change in unexpended appropriations	(793,600)	(1,035,138)
Reduction of allowance for loan losses, net of recoveries	(12,913)	(106,907)
Changes in assets and liabilities:		
Decrease in interest receivable	5,764	2,947
Increase in accrued technical assistance	109,964	584,609
Net cash used in operating activities	(494,613)	(506,263)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Loan principal repayments	2,145,022	1,885,228
Loan disbursements	(1,669,000)	(1,497,458)
Net cash provided by investing activities	476,022	387,770
CASH FLOWS FROM FINANCING ACTIVITIES—		
Appropriations received—revolving fund capital	1,942,000	1,192,920
Net cash provided by financing activities	1,942,000	1,192,920
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,923,409	1,074,427
CASH AND CASH EQUIVALENTS—Beginning of year	10,036,466	8,962,039
CASH AND CASH EQUIVALENTS—End of year	$ 11,959,875	$ 10,036,466

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

1. NATURE OF ORGANIZATION

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

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

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

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

2. SIGNIFICANT ACCOUNTING AND OPERATIONAL POLICIES

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

***Cash Equivalents*—**The Federal Credit Union Act permits the CDRLF to make investments in United States Government Treasury securities. All investments in 2005 and 2004 were cash equivalents and are stated at cost which approximates fair value. Cash equivalents are highly liquid investments with original maturities of three months or less.

Allowance for Loan Losses—The CDRLF records a provision for estimated loan losses. Loans considered to be uncollectible are charged to the allowance for loan losses. Management continually evaluates the adequacy of the allowance for loan losses based upon prevailing circumstances and an assessment of collectibility risk of the total loan portfolio. Accrual of interest is discontinued on non-performing loans when management believes collectibility is doubtful. At December 31, 2005 and 2004, there were no nonaccrual loans.

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

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

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

***Reclassifications*—**Certain 2004 balances have been reclassified to conform to the 2005 presentation.

3. GOVERNMENT REGULATIONS

The 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 $18,473,699 appropriated for the CDRLF plus accumulated earnings. Federally chartered and state-chartered credit unions may participate in the CDRLF's Community Loan Fund. Loans may only be made to low-income credit unions as defined by the NCUA.

NCUA Rules and Regulations section 705.7 permit the classification of the loan in the participating credit union's accounting records as either a note payable or a nonmember deposit. As a nonmember deposit, an amount not to exceed $100,000 per credit union is insured by the National Credit Union Share Insurance Fund ("NCUSIF"). The covered amount of loans recorded as nonmember deposits by participating credit unions insured by the NCUSIF totaled approximately $3,034,000 and $3,632,000 at December 31, 2005 and 2004, respectively. Under the CDRLF Loan Program, loans recorded in the credit union's accounting records as notes payable may be collateralized.

Loans are limited to a maximum amount of $300,000 per credit union. Loans issued between January 1, 1995, and December 31, 1998, carry a fixed interest rate of 3%; loans issued between January 1, 1999, and December 31, 2001, carry a fixed rate of 2%; and loans issued after January 1, 2002, carry a fixed rate of 1%. Interest and principal are repaid on a semiannual basis beginning six months and one year, respectively, after the initial distribution of the loan. The maximum term of each loan is five years. Participating credit unions are required to match the value of the loan within one year of the date of approval of the loan.

During the year ended December 31, 2005, appropriations for loans and technical assistance in the amount of $1,942,000 were received. Of this amount, $1,743,600 was designated to be used as operating appropriations for technical assistance and $198,400 was designated to be used as revolving fund capital.

For the appropriations received for technical assistance for FY 2005-2006, $796,400 expires on September 30, 2006. For the appropriations received for technical assistance for FY 2006-2007, $950,000 expires on September 30, 2007.

Activities by each appropriation, from inception	Public Laws No. 108-199	Public Laws No. 108-199	Public Laws No. 109-115	Total
Operating appropriation received	$ 793,600	$ 198,400	$ 950,000	$ 1,942,000
Appropriation revenue recognized	793,600			793,600
Balance—December 31, 2005	$	$ 198,400	$ 950,000	$ 1,148,400

	2005	2004
Unexpended appropriations:		
Balance—beginning of the year	$ 895,178	$ 737,396
Operational appropriations received	1,942,000	1,192,920
Appropriation revenue recognized	(793,600)	(1,035,138)
Balance—end of year	$ 2,043,578	$ 895,178
Revolving fund capital:		
Balance—beginning of the year	$ 13,189,378	$ 13,031,596
Change in unexpended appropriations	1,148,400	157,782
Balance—end of year	$ 14,337,778	$ 13,189,378

4. LOANS

Loans outstanding at December 31, 2005 and 2004, are scheduled to be repaid during the following subsequent years:

	2005	2004
Year 1	$1,298,223	$1,827,943
Year 2	1,310,287	1,179,047
Year 3	826,790	1,068,191
Year 4	720,127	583,491
Year 5	418,800	391,577
	4,574,227	5,050,249
Less allowance for loan losses	(20,180)	(33,093)
Net loans outstanding	$4,554,047	$5,017,156

Changes in the allowance for loan losses are summarized below:

	2005	2004
Balance—beginning of year	$ 33,093	$ 140,000
Write-offs	(50,271)	(75,189)
Provision (reduction of allowance) for loan losses	37,358	(31,718)
Balance—end of year	$ 20,180	$ 33,093

5. CONCENTRATION OF CREDIT RISK

At December 31, 2005 and 2004, there are no significant concentrations of credit risk in the loan portfolio. As discussed in Note 1, the CDRLF provides loans to credit unions that serve predominantly low-income communities.

6. ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

Loans—The fair value is estimated by discounting projected future cash flows using current market interest rates. For purposes of this calculation, the discount rate used was the prime interest rate plus two percent (6.37% at December 31, 2005 and 7.25% at December 31, 2004).

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

	December 31, 2005		December 31, 2004	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:				
Cash and cash equivalents	$ 11,959,875	$ 11,959,875	$ 10,036,466	$ 10,036,466
Interest receivable	$ 11,293	$ 11,293	$ 17,057	$ 17,057
Loans	$ 4,574,227	$ 4,394,307	$ 5,050,249	$ 4,764,471
Allowance for loan losses	(20,180)	(20,180)	(33,093)	(33,093)
Loans—net of allowance	$ 4,554,047	$ 4,374,127	$ 5,017,156	$ 4,731,378
Liabilities:				
Accrued technical assistance	$ 837,265	$ 837,265	$ 727,301	$ 727,301

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

* * * * * *