

**NCUA 2006
FINANCIAL STATEMENT AUDITS
FOR**

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



For the year ended December 31, 2006

Audited Financial Statements	Audit Report Number
NCUA Operating Fund	OIG-07-02
National Credit Union Share Insurance Fund	OIG-07-03
Central Liquidity Facility	OIG-07-04
Community Development Revolving Loan Fund	OIG-07-05

March 12, 2007

A handwritten signature in black ink, appearing to read "William A. DeSarno". The signature is written in a cursive, flowing style.

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, 2006.

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 2006 to perform the financial statement audits mentioned above. The contract was for 2006, with options for 2007 and 2008. The Inspector General was the contracting officer for this contract.

AUDIT RESULTS Deloitte & Touche 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, 2006, 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, 2006 and 2005,
and Independent Auditors' Reports*

NATIONAL CREDIT UNION ADMINISTRATION OPERATING FUND

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INDEPENDENT AUDITORS' REPORT

To the Inspector General of
National Credit Union Administration:

We have audited the accompanying balance sheets of National Credit Union Administration Operating Fund (the "Fund") as of December 31, 2006 and 2005, and the related statements of revenues, expenses, and changes in fund balance, and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of National Credit Union Administration Operating Fund as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2007, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

February 12, 2007

NATIONAL CREDIT UNION ADMINISTRATION OPERATING FUND

BALANCE SHEETS AS OF DECEMBER 31, 2006 AND 2005 (Dollars in thousands)

	2006	2005
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 25,394	\$ 26,730
DUE FROM NATIONAL CREDIT UNION SHARE INSURANCE FUND (Note 4)		133
EMPLOYEE ADVANCES	902	835
OTHER ACCOUNTS RECEIVABLE (Note 5)	172	480
PREPAID EXPENSES AND OTHER ASSETS	1,683	681
FIXED ASSETS—Net of accumulated depreciation and amortization (Note 3)	<u>35,309</u>	<u>35,199</u>
TOTAL	<u>\$ 63,460</u>	<u>\$ 64,058</u>
 LIABILITIES AND FUND BALANCE		
LIABILITIES:		
Accounts payable	\$ 3,817	\$ 6,399
Obligations under capital leases (Note 6)	2,138	328
Accrued wages and benefits	2,571	6,391
Accrued annual leave	8,319	8,197
Accrued employee travel	11	20
Due to National Credit Union Share Insurance Fund (Note 4)	98	
Note payable to National Credit Union Share Insurance Fund (Note 4)	<u>22,461</u>	<u>23,802</u>
Total liabilities	39,415	45,137
FUND BALANCE (Note 11)	<u>24,045</u>	<u>18,921</u>
TOTAL	<u>\$ 63,460</u>	<u>\$ 64,058</u>

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, 2006 AND 2005
(Dollars in thousands)**

	2006	2005
REVENUES:		
Operating fees	\$ 63,577	\$ 61,959
Interest	2,203	1,332
Other	<u>179</u>	<u>164</u>
Total revenues	<u>65,959</u>	<u>63,455</u>
EXPENSES (Note 4):		
Employee wages and benefits	46,740	45,066
Travel	5,583	5,087
Rent, communications, and utilities	1,594	1,689
Contracted services	2,900	2,784
Other	<u>4,018</u>	<u>4,843</u>
Total expenses	<u>60,835</u>	<u>59,469</u>
EXCESS OF REVENUES OVER EXPENSES	5,124	3,986
FUND BALANCE—Beginning of year	<u>18,921</u>	<u>14,935</u>
FUND BALANCE—End of year	<u>\$ 24,045</u>	<u>\$ 18,921</u>

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION OPERATING FUND

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005 (Dollars in thousands)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of revenues over expenses	\$ 5,124	\$ 3,986
Adjustments to reconcile excess of revenues over expenses to cash provided by operating activities:		
Depreciation and amortization	3,719	3,339
Provision for loss on disposal of employee residences held for resale	261	108
Loss on disposal of fixed assets	1	2
(Increase) decrease in assets:		
Due from National Credit Union Share Insurance Fund	231	17
Employee advances	(67)	(295)
Other accounts receivable	308	(342)
Prepaid expenses	(237)	182
(Decrease) increase in liabilities:		
Accounts payable	(2,582)	2,226
Accrued wages and benefits	(3,820)	4,010
Accrued annual leave	122	431
Accrued employee travel	(9)	(1)
	<u>(9)</u>	<u>(1)</u>
Net cash provided by operating activities	<u>3,051</u>	<u>13,663</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of fixed assets	(1,049)	(2,511)
Purchases of employee residences held for sale	(1,839)	(988)
Proceeds from sale of employee residences held for resale	<u>813</u>	<u>723</u>
Net cash used in investing activities	<u>(2,075)</u>	<u>(2,776)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of note payable	(1,341)	(1,341)
Principal payments under capital lease obligations	<u>(971)</u>	<u>(1,043)</u>
Net cash used in financing activities	<u>(2,312)</u>	<u>(2,384)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,336)	8,503
CASH AND CASH EQUIVALENTS—Beginning of year	<u>26,730</u>	<u>18,227</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 25,394</u>	<u>\$ 26,730</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES—Acquisition of equipment under capital lease	<u>\$ 2,781</u>	<u>\$ 35</u>
CASH PAYMENTS FOR INTEREST	<u>\$ 889</u>	<u>\$ 626</u>

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION OPERATING FUND

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

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 2006 and 2005 were cash equivalents and are stated at cost, which approximates fair value.

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

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

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

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

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

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

3. FIXED ASSETS

Fixed assets are comprised of the following at December 31, 2006 and 2005 (in thousands):

	2006	2005
Office building and land	\$ 42,651	\$ 42,626
Furniture and equipment	11,900	13,338
Equipment under capital leases	2,983	3,243
Assets under construction	<u>139</u>	<u> </u>
Total	57,673	59,207
Less accumulated depreciation and amortization	<u>(22,364)</u>	<u>(24,008)</u>
Fixed assets—net	<u>\$ 35,309</u>	<u>\$ 35,199</u>

Accumulated amortization balances for equipment under capital leases as of December 31, 2006 and 2005, were (in thousands) \$964 and \$2,909, 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% to NCUSIF for both 2006 and 2005. The cost of the services allocated to NCUSIF, which totaled approximately \$80,642,000 and \$78,832,000 for 2006 and 2005, 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 \$873,000 and \$626,000 for 2006 and 2005, respectively. The note payable balances at December 31, 2006 and 2005, were approximately \$22,461,000 and \$23,802,000, respectively.

The above note requires principal repayments at December 31, 2006 as follows (in thousands):

Years Ending December 31:	Secured Term Note
2007	\$ 1,341
2008	1,341
2009	1,341
2010	1,341
2011	1,341
Thereafter	<u>15,756</u>
Total	<u>\$ 22,461</u>

The variable rate on the note is equal to NCUSIF's prior-month yield on investments. The average interest rates during 2006 and 2005 were 3.79% and 2.57%, respectively. The interest rates at December 31, 2006 and 2005, were 4.29% and 3.19%, 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 \$253,000 and \$220,000 for 2006 and 2005, respectively, and are reflected as a reduction of the corresponding expenses in the accompanying financial statements.

Other accounts receivable include approximately \$95,000 and \$91,000 of amounts due from NCUA CLF as of December 31, 2006 and 2005, respectively.

6. LEASE COMMITMENTS

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

Operating Leases—The Fund leases office space under lease agreements that expire through 2014. Office rental charges amounted to approximately \$741,600 and \$793,600 of which approximately \$422,700 and \$452,300 was reimbursed by NCUSIF for 2006 and 2005, respectively. In addition, the Fund leases office equipment under operating leases with lease terms of less than one year.

Capital Leases—The Fund leases equipment under lease agreements that expire through 2009.

The future minimum lease payments as of December 31, 2006, are as follows (in thousands):

Years Ending December 31:	Operating Leases	Capital Leases
2007	\$ 663	\$ 960
2008	561	954
2009	575	240
2010	297	
2011	303	
Thereafter	<u>704</u>	<u> </u>
Total	<u>\$ 3,103</u>	2,154
Less imputed interest		<u>(16)</u>
Present value of minimum lease payments		<u>\$ 2,138</u>

Based on the allocation factor approved by the NCUA Board for 2007, NCUSIF will reimburse the Fund for approximately 53.3% 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, up to \$15,000 in 2006, and the Fund will match up to 5% of the employees' gross pay. In 2006 and 2005, the Fund's contributions to the plans were approximately \$11,630,000 and \$11,060,000, respectively, of which approximately \$6,629,000 and \$6,304,000, 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):

	<u>December 31, 2006</u>		<u>December 31, 2005</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Cash and cash equivalents	\$ 25,394	\$ 25,394	\$ 26,730	\$ 26,730
Due from NCUSIF			133	133
Due to NCUSIF	98	98		
Employee advances	902	902	835	835
Other accounts receivable	172	172	480	480
Accounts payable	3,817	3,817	6,399	6,399
Obligation under capital lease	2,138	2,138	328	328
Note payable to NCUSIF	22,461	22,461	23,802	23,802

9. CONTINGENCIES

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

10. HURRICANE RELATED MATTERS

As part of its regulatory relief and forbearance efforts for credit unions and their members impacted by hurricanes, the NCUA Board allowed credit unions that are located in hurricane-affected areas to pay an operating fee that was based on assets that excluded hurricane-related Federal Emergency Management Agency and insurance payouts. This resulted in a reduction in operating fee collections in the amount of \$167,000 during 2006.

Once again in 2007, the NCUA Board will again allow credit unions that are still affected by the hurricanes to pay a reduced operating fee. In the opinion of management, this will not have a material impact on operating fee collections.

11. RETAINED EARNINGS APPROPRIATION

In 2006, the NCUA Board established an appropriation of the Fund's fund balance in an effort to more transparently disclose and communicate to stakeholders earnings that are needed for major projects that cannot be accrued or that do not warrant inclusion in the annual operating expense budget. The initial

appropriation of \$1,000,000 is for repairs and maintenance on NCUA's Alexandria headquarters building.

12. COMMITMENTS

NCUA shares a common plaza and parking garage with owners of real estate adjacent to their headquarters office building. In 2006, NCUA, along with the other owners, entered into contracts for the restoration and preservation of the Alexandria, Virginia King Street Station complex's plaza and garage. The value of the contracts totals \$3,465,624 with \$721,028 for NCUA's share. As of December 31, 2006, the Fund has advanced \$237,939 towards the project and has recorded \$139,000 as construction in progress and the remainder as a prepaid expense. The Fund is expected to pay an additional \$483,089 for this work in 2007. The project is expected to be completed in 2007.

* * * * *

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

To the Inspector General of
National Credit Union Administration:

We have audited the financial statements of the National Credit Union Administration Operating Fund (the "Fund"), as of and for the year ended December 31, 2006, and have issued our report thereon dated February 12, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with

those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain that we have reported to the management of the Fund in a separate letter dated February 12, 2007.

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

A handwritten signature in cursive script that reads "Deloitte Touche LLP". The signature is written in dark ink and is positioned above the date.

February 12, 2007

***National Credit Union
Share Insurance Fund***

*Financial Statements as of and for the
Years Ended December 31, 2006 and 2005,
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, 2006 and 2005, 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, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2007, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

February 12, 2007

NATIONAL CREDIT UNION SHARE INSURANCE FUND

BALANCE SHEETS

AS OF DECEMBER 31, 2006 AND 2005

(Dollars in thousands)

ASSETS	2006	2005
INVESTMENTS (Note 6)	\$ 5,257,216	\$ 4,808,210
CASH AND CASH EQUIVALENTS	1,683,462	1,798,763
ACCRUED INTEREST RECEIVABLE	63,244	52,102
DUE FROM NATIONAL CREDIT UNION ADMINISTRATION OPERATING FUND (Note 8)	98	-
ASSETS ACQUIRED IN ASSISTANCE TO INSURED CREDIT UNIONS	14,461	17,588
LOANS TO CREDIT UNIONS	15,000	-
NOTE RECEIVABLE—National Credit Union Administration Operating Fund (Note 8)	22,461	23,802
CONTRIBUTIONS RECEIVABLE FROM INSURED CREDIT UNIONS	47	1,740
FIXED ASSETS—Net of accumulated depreciation and amortization (note 3)	<u>762</u>	<u>104</u>
TOTAL	<u>\$ 7,056,751</u>	<u>\$ 6,702,309</u>
 LIABILITIES AND FUND BALANCE		
LIABILITIES:		
Estimated losses from supervised credit unions (Note 4)	\$ 70,229	\$ 72,976
Amounts due to insured shareholders of liquidated credit unions	7,291	8,257
Due to National Credit Union Administration Operating Fund (Note 8)	-	133
Cash assistance liability	-	2,357
Accounts payable	109	35
Obligations under capital leases (Note 9)	<u>806</u>	<u>107</u>
Total liabilities	<u>78,435</u>	<u>83,865</u>
 FUND BALANCE:		
Insured credit unions' accumulated contributions	5,306,286	5,128,031
Insurance fund balance	<u>1,672,030</u>	<u>1,490,413</u>
Total fund balance	<u>6,978,316</u>	<u>6,618,444</u>
TOTAL	<u>\$ 7,056,751</u>	<u>\$ 6,702,309</u>

See notes to financial statements.

NATIONAL CREDIT UNION SHARE INSURANCE FUND

STATEMENTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005 (Dollars in thousands)

	2006	2005
REVENUES:		
Interest	\$ 264,895	\$ 175,017
Other	<u>1,326</u>	<u>645</u>
Total revenues	<u>266,221</u>	<u>175,662</u>
EXPENSES (Note 8)—		
Administrative expenses:		
Employee wages and benefits	61,958	59,739
Travel	7,401	6,743
Rent, communications, and utilities	2,113	2,239
Contracted services	3,844	3,691
Provision for insurance losses (Note 4)	2,548	20,940
Other	<u>6,740</u>	<u>8,061</u>
Total expenses	<u>84,604</u>	<u>101,413</u>
EXCESS OF REVENUES OVER EXPENSES	<u>\$ 181,617</u>	<u>\$ 74,249</u>

See notes to financial statements.

NATIONAL CREDIT UNION SHARE INSURANCE FUND

STATEMENTS OF FUND BALANCE FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005 (Dollars in thousands)

	Insured Credit Unions' Accumulated Contributions	Insurance Fund Balance
BALANCE—January 1, 2005	\$4,943,144	\$ 1,416,164
Contributions from insured credit unions	184,887	-
Excess of revenues over expenses	<u>-</u>	<u>74,249</u>
BALANCE—December 31, 2005	5,128,031	1,490,413
Contributions from insured credit unions	178,255	-
Excess of revenues over expenses	<u>-</u>	<u>181,617</u>
BALANCE—December 31, 2006	<u>\$ 5,306,286</u>	<u>\$ 1,672,030</u>

See notes to financial statements.

NATIONAL CREDIT UNION SHARE INSURANCE FUND

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005 (Dollars in thousands)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of revenues over expenses	\$ 181,617	\$ 74,249
Adjustments to reconcile excess of revenues over expenses to cash provided by operating activities:		
Depreciation and amortization	415	414
Amortization of premiums and discounts on investments—net	1,806	49,022
(Recoveries) reserves relating to losses from supervised credit unions—net	(2,747)	5,850
Decrease (increase) in assets:		
Accrued interest receivable	(11,142)	(13,856)
Assets acquired in assistance to insured credit unions—net	3,127	(961)
Contributions receivable from insured credit unions	-	(182)
Increase (decrease) in liabilities:		
Amounts due to insured shareholders of liquidated credit unions	(966)	(3,344)
Amounts due to National Credit Union Administration Operating Fund	(231)	(17)
Cash assistance liability	(2,357)	1,279
Accounts payable	74	(37)
	<u>169,596</u>	<u>112,417</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Loans to credit unions	(15,000)	-
Purchases of investments	(2,550,812)	(2,271,641)
Proceeds from maturities of investments	2,100,000	1,900,000
Collections on note receivable—National Credit Union Administration Operating Fund	1,341	1,341
	<u>(464,471)</u>	<u>(370,300)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions from insured credit unions	179,948	184,709
Principal payments under capital lease obligation	(374)	(415)
	<u>179,574</u>	<u>184,472</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(115,301)	(73,411)
CASH AND CASH EQUIVALENTS—Beginning of year	<u>1,798,763</u>	<u>1,872,174</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 1,683,462</u>	<u>\$ 1,798,763</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES—Acquisition of equipment under capital lease		
	<u>\$ 1,073</u>	<u>\$ -</u>
CASH PAYMENTS FOR INTEREST	<u>\$ 5</u>	<u>\$ -</u>

See notes to financial statements.

NATIONAL CREDIT UNION SHARE INSURANCE FUND

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

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 and \$250,000 on certain retirement accounts.

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

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. 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.

Cash and 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.

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.

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.

Depreciation and Amortization—Furniture and equipment are recorded at cost. Equipment acquired under capital lease agreements is recorded at the present value of the future minimum lease payments. Depreciation and amortization are computed by the straight-line method over the estimated useful lives of the 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.

Guarantees—Guarantees are recorded in accordance with FASB Interpretation No. 45, *Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, which requires the Fund to recognize, at the inception of a guarantee, a liability for the fair value of obligation undertaken in issuing the guarantee.

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% (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:

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

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

Loans to Credit Unions—It is not practicable to estimate the fair value of these assets as there is no secondary market. All outstanding loans are secured by a perfected lien against the assets of the credit union and are fully secured

Other—Accrued interest receivable, due from/to NCUA Operating Fund, note receivable from NCUA Operating Fund, contributions receivable from insured credit unions, due to insured shareholders of liquidated credit unions, accounts payable, and obligations under capital leases 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. 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.

3. FIXED ASSETS

At December 31, 2006 and 2005, fixed assets are comprised of the following (in thousands):

	2006	2005
Furniture and equipment	\$ 501	\$ 500
Equipment under capital leases	<u>1,073</u>	<u>1,237</u>
Total	1,574	1,737
Less—accumulated depreciation and amortization	<u>(812)</u>	<u>(1,633)</u>
Total fixed assets—net	<u>\$ 762</u>	<u>\$ 104</u>

Accumulated amortization balances for equipment under capital leases as of December 31, 2006 and 2005, totaled (in thousands) \$311 and \$1,133, 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. NCUA periodically reviews the CAMEL Rating System to respond to continuing economic and regulatory changes in the credit union industry. 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 estimated insurance in force as of December 31, 2006 and December 31, 2005, is \$535.3 billion and \$516.6 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 \$70 million and \$73 million at December 31, 2006 and 2005, respectively.

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. No such guarantees were outstanding at December 31, 2006 and 2005. 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, 2006 and 2005, are approximately \$20 million and \$2.2 million, respectively. The total balances outstanding under these line-of-credit guarantees at December 31, 2006 and 2005 are approximately \$0 and \$2.1 million, respectively. The carrying amount of the liability as of December 31, 2006, for the outstanding NCUSIF guarantee is \$422,876. All guarantees outstanding at December 31, 2006 expire on March 31, 2007.

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. No such indemnification contingencies existed at December 31, 2006.

The activity in the reserves for estimated losses from supervised credit unions for the periods ended December 31, 2006 and 2005, was as follows (in thousands):

	2006	2005
Beginning Balance	\$ 72,976	\$ 67,126
Insurance losses	(10,833)	(24,177)
Recoveries	5,538	9,087
Provision for insurance losses	<u>2,548</u>	<u>20,940</u>
Ending Balance	<u>\$ 70,229</u>	<u>\$ 72,976</u>

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 set the normal operating level for 2007 and 2006 at 1.30%. The calculated equity ratios at December 31, 2006 and December 31, 2005, were 1.304% and 1.28%, 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 will convene early in 2007 to declare dividends payable on insured shares as of December 31, 2006, because the equity ratio of 1.304% is above the normal operating level of 1.30%. Total insured shares as of December 31, 2006 and December 31, 2005, were estimated to be \$535.3 billion and \$516.6 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, 2006 and 2005, investments consist of the following (in thousands):

	2006				
	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	2.96 %	\$ 1,703,200	\$ -	\$ (13,138)	\$ 1,690,062
Maturities after one year through five years	4.48	<u>3,554,016</u>	<u>-</u>	<u>(11,891)</u>	<u>3,542,125</u>
Total		<u>\$ 5,257,216</u>	<u>\$ -</u>	<u>\$ (25,029)</u>	<u>\$ 5,232,187</u>
	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	<u>2,499,383</u>	<u>-</u>	<u>(35,367)</u>	<u>2,464,016</u>
Total		<u>\$ 4,808,210</u>	<u>\$ -</u>	<u>\$ (56,632)</u>	<u>\$ 4,751,578</u>

Total investment purchases during 2006 and 2005 were approximately \$2.6 billion and \$2.3 billion, respectively. Investment maturities during 2006 and 2005 were approximately \$2.1 billion and \$1.9 billion, respectively. The Fund has the capability and management has the intention to hold all investments held at December 31, 2006 and 2005 to maturity. There were no investment sales during 2006 and 2005.

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 2006 and 2005.

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% to the Fund for both 2006 and 2005. The cost of services provided by the NCUA Operating Fund was approximately \$80,642,000 and \$78,832,000 for 2006 and 2005, respectively, and includes pension contributions of approximately \$6,629,000 and \$6,304,000 to the Civil Service Retirement System and Federal Employees Retirement System defined benefit retirement plans for 2006 and 2005, 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 \$873,000 and \$626,000 for 2006 and 2005, respectively. The note receivable balances at December 31, 2006 and 2005 were approximately \$22,461,000 and \$23,802,000, respectively.

The above note matures as follows (in thousands):

Years Ending December 31	Secured Term Note
2007	\$ 1,341
2008	1,341
2009	1,341
2010	1,341
2011	1,341
Thereafter	<u>15,756</u>
Total	<u>\$ 22,461</u>

The variable rate on the term note is equal to the Fund's prior-month yield on investments. The average interest rates during 2006 and 2005 were approximately 3.79% and 2.57%, respectively. At December 31, 2006 and 2005, the rates were 4.29% and 3.19%, respectively.

The NCUA Operating Fund leases certain office space and equipment under operating lease agreements that expire through 2014. Based on the allocation factor determined by the NCUA's Board, the Fund reimbursed 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 \$422,700 and \$452,300 for December 31, 2006 and 2005, respectively.

Based on the allocation factor approved by the NCUA Board for 2007, NCUSIF will reimburse the Fund for approximately 53.3% of the future operating lease payments. The Fund's allocation of the NCUA Operating Fund's total future minimum lease payments on operating leases as of December 31, 2006, is expected to be as follows (in thousands):

Years Ending December 31	
2007	\$ 367
2008	303
2009	311
2010	160
2011	164
Thereafter	<u>380</u>
Total	<u>\$ 1,685</u>

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 2009.

A schedule of future minimum lease payments as of December 31, 2006, is as follows (in thousands):

2007	\$ 360
2008	360
2009	<u>90</u>
Total	810
Less imputed interest	<u>(4)</u>
Present value of minimum lease payments	<u>\$ 806</u>

10. DISCLOSURE OF FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount and the estimated fair value of the Fund's financial instruments, at December 31, 2006 and 2005, are as follows:

	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Investments	\$ 5,257,216	\$ 5,232,187	\$ 4,808,210	\$ 4,751,578
Cash and cash equivalents	1,683,462	1,683,462	1,798,763	1,798,763
Accrued interest receivable	63,244	63,244	52,102	52,102
Loans to credit unions	15,000	15,000		
Notes receivable—NCUA				
Operating Fund	22,461	22,461	23,802	23,802
Contributions receivable from insured credit unions	47	47	1,740	1,740
Amounts due to insured shareholders of liquidated credit unions	7,291	7,291	8,257	8,257
Due from (to) NCUA				
Operating Fund	98	98	(133)	(133)
Cash assistance liability			2,357	2,357
Accounts payable	109	109	35	35
Obligations under capital leases	806	806	107	107

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

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

* * * * *

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

To the Inspector General of
National Credit Union Administration:

We have audited the financial statements of the National Credit Union Share Insurance Fund ("the Fund"), as of and for the year ended December 31, 2006, and have issued our report thereon dated February 12, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those

provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Fund in a separate letter dated February 12, 2007.

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



February 12, 2007

***National Credit Union
Administration
Central Liquidity Facility***

*Financial Statements as of and for the
Years Ended December 31, 2006 and 2005,
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, 2006 and 2005, 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 CLF's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the National Credit Union Administration Central Liquidity Facility as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2007, on our consideration of CLF's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

February 12, 2007

NATIONAL CREDIT UNION ADMINISTRATION CENTRAL LIQUIDITY FACILITY

BALANCE SHEETS AS OF DECEMBER 31, 2006 AND 2005 (In thousands)

	2006	2005
ASSETS		
ASSETS:		
Cash	\$ 12	\$ 10
Investments with U.S. Central Federal Credit Union (Notes 5, 8, and 9)	1,549,678	1,470,390
Accrued interest receivable	<u>21,386</u>	<u>14,557</u>
TOTAL	<u>\$1,571,076</u>	<u>\$1,484,957</u>
 LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES:		
Accounts payable and other liabilities	\$ 130	\$ 120
Dividends payable (Note 7)	21,267	14,475
Member deposits (Note 7)	<u>622</u>	<u>509</u>
 Total liabilities	 <u>22,019</u>	 <u>15,104</u>
 MEMBERS' EQUITY:		
Capital stock—required (Note 7)	1,537,649	1,458,445
Retained earnings	<u>11,408</u>	<u>11,408</u>
 Total members' equity	 <u>1,549,057</u>	 <u>1,469,853</u>
TOTAL	<u>\$1,571,076</u>	<u>\$1,484,957</u>

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION CENTRAL LIQUIDITY FACILITY

STATEMENTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005 (In thousands)

	2006	2005
REVENUE :		
Investment income	\$ 78,213	\$ 46,985
Interest—loans to members (Note 6)	<u>75</u>	<u>-</u>
Total revenue	<u>78,288</u>	<u>46,985</u>
EXPENSES (Note 10):		
Operating expenses:		
Group agent service fee	-	1
Personnel services	141	135
Other services	63	42
Rent, communications, and utilities	8	7
Personnel benefits	33	34
Supplies and materials	3	3
Printing and reproduction	<u>5</u>	<u>6</u>
Total operating expenses	253	228
Interest-Federal Financing Bank loans (Note 6)	75	-
Interest-liquidity reserve	<u>37</u>	<u>13</u>
Total expenses	<u>365</u>	<u>241</u>
EXCESS OF REVENUE OVER EXPENSES	<u>\$ 77,923</u>	<u>\$ 46,744</u>

See notes to financial statements.

**NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY**

**STATEMENTS OF MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005
(In thousands)**

	Capital Stock	Retained Earnings
BALANCE—January 1, 2005	\$ 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	<u> </u>	<u>46,744</u>
BALANCE—December 31, 2005	1,458,445	11,408
Issuance of required capital stock	81,143	
Redemption of required capital stock	(1,939)	
Dividends		(77,923)
Excess of revenue over expenses	<u> </u>	<u>77,923</u>
BALANCE—December 31, 2006	<u>\$ 1,537,649</u>	<u>\$ 11,408</u>

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION CENTRAL LIQUIDITY FACILITY

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005 (In thousands)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of revenue over expenses	\$ 77,923	\$ 46,744
Adjustments to reconcile excess of revenue over expenses to net cash provided by operating activities:		
(Increase) in accrued interest receivable	(6,829)	(8,024)
Increase in accounts payable and other liabilities	<u>10</u>	<u>12</u>
Net cash provided by operating activities	<u>71,104</u>	<u>38,732</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments—net	<u>(79,288)</u>	<u>(113,362)</u>
Net cash used in investing activities	<u>(79,288)</u>	<u>(113,362)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Additions to member deposits	1,578	864
Issuance of required capital stock	81,143	113,554
Dividends	(71,131)	(38,747)
Withdrawal of member deposits	(1,465)	(587)
Redemption of required capital stock	<u>(1,939)</u>	<u>(454)</u>
Net cash provided by financing activities	<u>8,186</u>	<u>74,630</u>
NET INCREASE IN CASH	2	
CASH—Beginning of year	<u>10</u>	<u>10</u>
CASH—End of year	<u>\$ 12</u>	<u>\$ 10</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION—Cash paid during the year for interest		
	<u>\$ 108</u>	<u>\$ 13</u>

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION CENTRAL LIQUIDITY FACILITY

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

1. ORGANIZATION AND PURPOSE

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

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

Funds on Deposit with U.S. Central Federal Credit Union—CLF invests in redeposits and share accounts at U.S. Central Federal Credit Union (see Notes 5 and 9). 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

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 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, 2006 and 2005, 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, 2006 and 2005. 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):

	<u>December 31,</u>	
	<u>2006</u>	<u>2005</u>
U.S. Central Federal Credit Union Share Account	\$ 1,545,678	\$ 1,468,390
U.S. Central Federal Credit Union Share Certificates	<u>4,000</u>	<u>2,000</u>
	<u>\$ 1,549,678</u>	<u>\$ 1,470,390</u>

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 CLF in USC Share Accounts and Certificates.

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

CLF is authorized by statute to borrow, from any source, an amount not to exceed twelve times its subscribed capital stock and surplus.

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. The amount of each promissory note was reduced to \$5 billion and expires yearly on the 31st of March. The current promissory note expires March 31, 2007. Congress, however, has restricted CLF’s borrowing authority to \$1.5 billion for the fiscal years 2005, 2006 and 2007, 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. During 2006, CLF borrowed amounts totaling \$6,210,600 from the Federal Financing Bank under two separate loan agreements, which it, in turn, loaned to a member credit union. All amounts borrowed during 2006 were repaid by December 31, 2006.

The Secretary of the Treasury is authorized by the Act to lend up to \$500 million to CLF in the event that the Board certifies to the Secretary that 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 CLF to meet emergency liquidity needs of credit unions.

7. CAPITAL STOCK AND MEMBER DEPOSITS

The required 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, 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 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 2006 to be paid in 2007.

8. U.S. CENTRAL FEDERAL CREDIT UNION MEMBERSHIP

During fiscal year 1984, CLF accepted a membership request from U.S. Central Federal Credit Union (“USC”) on behalf of its corporate credit union members. At December 31, 2006 and 2005, \$1,479,256,000 and \$1,401,373,000, respectively, of the required portion of subscribed capital stock

were purchased from CLF by USC on behalf of member credit unions of its corporate credit union members. The USC has 28 and 29 corporate credit union members as of December 31, 2006 and 2005, respectively.

CLF reinvests all of its agent member share capital in USC at market rates of interest. At December 31, 2006 and 2005, approximately \$1,549,678,000 and \$1,470,390,000, respectively, were invested in USC accounts at 5.46% and 3.92%, respective yields.

9. CONCENTRATION OF CREDIT RISK

At December 31, 2006 and 2005, CLF has a concentration of credit risk for its investments on deposit with USC of approximately \$1,549,678,000 and \$1,470,390,000, respectively (Notes 5 and 8).

10. SERVICES PROVIDED BY THE NATIONAL CREDIT UNION ADMINISTRATION

The National Credit Union Administration provides 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 CLF's portion of monthly building operating costs. 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 \$253,000 and \$220,000 for the years ended December 31, 2006 and 2005, respectively. As of December 31, 2006 and 2005, accounts payable and other liabilities include approximately \$95,000 and \$91,000, respectively 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 CLF's financial instruments are as follows (in thousands):

	December 31, 2006		December 31, 2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash	\$ 12	\$ 12	\$ 10	\$ 10
Funds on deposit with U.S. Central Federal Credit Union	1,549,678	1,549,668	1,470,390	1,470,345
Accrued interest receivable	21,386	21,386	14,557	14,557
Accounts payable and other liabilities	130	130	120	120
Dividends payable	21,267	21,267	14,475	14,475
Member deposits	622	622	509	509

* * * * *

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

To the Inspector General of
National Credit Union Administration:

We have audited the financial statements of the National Credit Union Administration Central Liquidity Facility ("CLF") as of and for the year ended December 31, 2006, and have issued our report thereon dated February 12, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CLF financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the

determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of CLF in a separate letter dated February 12, 2007.

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

A handwritten signature in cursive script that reads "Deloitte Touche LLP". The signature is written in black ink and is positioned above a solid red horizontal line. To the left of the signature, there is a vertical black line that extends from the top of the signature area down to the date below.

February 12, 2007

***National Credit Union
Administration Community
Development Revolving
Loan Fund***

*Financial Statements as of and for the
Years Ended December 31, 2006 and 2005,
and Independent Auditors' Reports*

NATIONAL CREDIT UNION ADMINISTRATION COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

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INDEPENDENT AUDITORS' REPORT

To the Inspector General of
National Credit Union Administration:

We have audited the accompanying balance sheets of National Credit Union Administration Community Development Revolving Loan Fund ("CDRLF") as of December 31, 2006 and 2005, and the related statements of operations, changes in fund balance, and cash flows for the years then ended. These financial statements are the responsibility of the management of CDRLF. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of National Credit Union Administration Community Development Revolving Loan Fund as of December 31, 2006 and 2005, and the results of its operations and the cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2007, on our consideration of CDRLF's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

February 12, 2007

**NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND**

**BALANCE SHEETS
AS OF DECEMBER 31, 2006 AND 2005**

	2006	2005
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 8,668,980	\$ 11,959,875
LOANS—Net of allowance (Note 4)	7,386,864	4,554,047
INTEREST RECEIVABLE	<u>17,703</u>	<u>11,293</u>
TOTAL	<u>\$ 16,073,547</u>	<u>\$ 16,525,215</u>
LIABILITIES AND FUND BALANCE		
LIABILITIES—Accrued technical assistance	\$ 1,091,418	\$ 837,265
Total liabilities	<u>1,091,418</u>	<u>837,265</u>
FUND BALANCE:		
Revolving fund capital (Note 3)	13,435,642	14,337,778
Accumulated earnings	<u>1,546,487</u>	<u>1,350,172</u>
Total fund balance	<u>14,982,129</u>	<u>15,687,950</u>
TOTAL	<u>\$ 16,073,547</u>	<u>\$ 16,525,215</u>

See notes to financial statements.

**NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND**

**STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**

	2006	2005
SUPPORT AND REVENUES:		
Interest on cash equivalents	\$ 451,184	\$ 274,095
Interest on loans	57,271	52,700
Appropriation revenue	<u>892,636</u>	<u>793,600</u>
 Total support and revenues	 <u>1,401,091</u>	 <u>1,120,395</u>
EXPENSES:		
Technical assistance	1,224,956	886,865
(Reduction of) provision for allowance for loan losses	<u>(20,180)</u>	<u>37,358</u>
 Total expenses	 <u>1,204,776</u>	 <u>924,223</u>
 EXCESS OF SUPPORT AND REVENUES OVER EXPENSES	 <u>\$ 196,315</u>	 <u>\$ 196,172</u>

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, 2006 AND 2005**

	2006	2005
FUND BALANCE—Beginning of year	\$ 15,687,950	\$ 14,343,378
Change in unexpended appropriations:		
Operating appropriations received (Note 3)	-	1,942,000
Rescission of appropriations received (Note 3)	(9,500)	
Appropriation revenue recognized (Note 3)	(892,636)	(793,600)
Excess of support and revenues over expenses	<u>196,315</u>	<u>196,172</u>
FUND BALANCE—End of year	<u>\$ 14,982,129</u>	<u>\$ 15,687,950</u>

See notes to financial statements.

**NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND**

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of support and revenues over expenses	\$ 196,315	\$ 196,172
Adjustments to reconcile the excess of support and revenues over expenses to net cash used in operating activities:		
Change in unexpended appropriations	(892,636)	(793,600)
Reduction of allowance for loan losses—net of recoveries	(20,180)	(12,913)
Changes in assets and liabilities:		
(Increase) decrease in interest receivable	(6,410)	5,764
Increase in accrued technical assistance	<u>254,153</u>	<u>109,964</u>
Net cash used in operating activities	<u>(468,758)</u>	<u>(494,613)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Loan principal repayments	1,331,863	2,145,022
Loan disbursements	<u>(4,144,500)</u>	<u>(1,669,000)</u>
Net cash (used in) provided by investing activities	<u>(2,812,637)</u>	<u>476,022</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Appropriations received—revolving fund capital	-	1,942,000
Recission of appropriations received	<u>(9,500)</u>	<u>-</u>
Net cash (used in) provided by financing activities	<u>(9,500)</u>	<u>1,942,000</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(3,290,895)	1,923,409
CASH AND CASH EQUIVALENTS—Beginning of year	<u>11,959,875</u>	<u>10,036,466</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 8,668,980</u>	<u>\$ 11,959,875</u>

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, 2006 AND 2005

1. NATURE OF ORGANIZATION

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

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

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

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

2. SIGNIFICANT ACCOUNTING AND OPERATIONAL POLICIES

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

Cash Equivalents—The Federal Credit Union Act permits CDRLF to make investments in United States Government Treasury securities. All investments in 2006 and 2005 were cash equivalents and are stated at cost which approximates fair value. Cash equivalents are highly liquid investments with original maturities of three months or less.

Allowance for Loan Losses—CDRLF records a provision for estimated loan losses. Loans considered to be uncollectible are charged to the allowance for loan losses. Management continually evaluates the adequacy of the allowance for loan losses based upon prevailing circumstances and an assessment of collectibility risk of the total loan portfolio. Accrual of interest is discontinued on non-performing loans when management believes collectibility is doubtful. At December 31, 2006 and 2005, 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 CDRLF.

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

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

3. GOVERNMENT REGULATIONS

CDRLF is subject to various Federal laws and regulations. Assistance, which includes lending and technical assistance, is limited by Congress to a total of the \$18,660,515 appropriated for CDRLF, plus accumulated earnings. Federally chartered and state-chartered credit unions may participate in CDRLF's Community Loan Fund. Loans may only be made to low-income credit unions as defined by NCUA.

NCUA Rules and Regulations Section 705.7 permit the classification of the loan in the participating credit union's accounting records as either a note payable or a nonmember deposit. As a nonmember deposit, an amount not to exceed \$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 \$4,553,000 and \$3,034,000 at December 31, 2006 and 2005, respectively. Under the CDRLF Loan Program, loans recorded in the credit union's accounting records as notes payable may be collateralized.

Loans are limited to a maximum amount of \$300,000 per credit union. Loans issued after January 1, 2002, carry a fixed rate of 1%. Interest and principal are repaid on a semiannual basis beginning six months and one year, respectively, after the initial distribution of the loan. The maximum term of each loan is five years. 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 which \$950,000 was for fiscal years 2006–2007. 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.

In January 2006, \$9,500 of the fiscal 2006–2007 appropriation was rescinded, making a net appropriation of \$940,500 for technical assistance for fiscal years 2006–2007.

For the appropriations received for technical assistance for fiscal 2006–2007, \$940,500 expires on September 30, 2007. Appropriations of \$941,000 for technical assistance grants are proposed for fiscal 2007–2008.

	Public Laws			Total
	No. 108-199	No. 108-199	No. 109-115	
Activities by each appropriation, from inception				
Operating appropriation received—2005	\$ 793,600	\$ 198,400	\$ 950,000	\$ 1,942,000
Appropriation revenue recognized—2005	793,600	-	-	793,600
Operating appropriation rescinded—2006	-	-	(9,500)	(9,500)
Appropriation revenue recognized—2006	-	-	892,636	892,636
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Balance—December 31, 2006	<u>\$ -</u>	<u>\$ 198,400</u>	<u>\$ 47,864</u>	<u>\$ 246,264</u>
			2006	2005
Unexpended appropriations:				
Balance—beginning of the year			\$ 2,043,578	\$ 895,178
Operational appropriations (rescinded) received			(9,500)	1,942,000
Appropriation revenue recognized			<u>(892,636)</u>	<u>(793,600)</u>
Balance of unexpended appropriations—end of year			<u>\$ 1,141,442</u>	<u>\$ 2,043,578</u>
Revolving fund capital:				
Balance—beginning of the year			\$ 14,337,778	\$ 13,189,378
Change in unexpended appropriations			<u>(902,136)</u>	<u>1,148,400</u>
Balance of revolving fund capital—end of year			<u>\$ 13,435,642</u>	<u>\$ 14,337,778</u>

4. LOANS

Loans outstanding at December 31, 2006 and 2005, are scheduled to be repaid during the following subsequent years:

	2006	2005
2007	\$ 1,828,997	\$ 1,298,223
2008	1,655,690	1,310,287
2009	1,549,027	826,790
2010	1,247,700	720,127
2011	<u>1,105,450</u>	<u>418,800</u>
	7,386,864	4,574,227
Less allowance for loan losses	<u>-</u>	<u>(20,180)</u>
Net loans outstanding	<u>\$ 7,386,864</u>	<u>\$ 4,554,047</u>

Changes in the allowance for loan losses are summarized below:

	2006	2005
Balance—beginning of year	\$ 20,180	\$ 33,093
Write-offs		(50,271)
(Reduction of) provision for allowance for loan losses	<u>(20,180)</u>	<u>37,358</u>
Balance—end of year	<u>\$ -</u>	<u>\$ 20,180</u>

5. CONCENTRATION OF CREDIT RISK

At December 31, 2006 and 2005, there are no significant concentrations of credit risk in the loan portfolio. As discussed in Note 1, CDRLF provides loans to credit unions that serve predominantly low-income communities.

6. ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

The following disclosures of the estimated fair value of financial instruments are made in accordance with the requirements of 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 (6.76% and 6.37% at December 31, 2006 and 2005, respectively).

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

	<u>December 31, 2006</u>		<u>December 31, 2005</u>	
	<u>Carrying Amount</u>	<u>Estimated Fair Value</u>	<u>Carrying Amount</u>	<u>Estimated Fair Value</u>
Assets:				
Cash and cash equivalents	<u>\$ 8,668,980</u>	<u>\$ 8,668,980</u>	<u>\$ 11,959,875</u>	<u>\$ 11,959,875</u>
Interest receivable	<u>\$ 17,703</u>	<u>\$ 17,703</u>	<u>\$ 11,293</u>	<u>\$ 11,293</u>
Loans	<u>\$ 7,386,864</u>	<u>\$ 6,358,776</u>	<u>\$ 4,574,227</u>	<u>\$ 4,394,307</u>
Allowance for loan losses	<u>-</u>	<u>-</u>	<u>(20,180)</u>	<u>(20,180)</u>
Loans—net of allowance	<u>\$ 7,386,864</u>	<u>\$ 6,358,776</u>	<u>\$ 4,554,047</u>	<u>\$ 4,374,127</u>
Liabilities—accrued technical assistance	<u>\$ 1,091,418</u>	<u>\$ 1,091,418</u>	<u>\$ 837,265</u>	<u>\$ 837,265</u>

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

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

To the Inspector General of
National Credit Union Administration:

We have audited the financial statements of the National Credit Union Administration Community Development Revolving Loan Fund ("CDRLF") as of and for the year ended December 31, 2006, and have issued our report thereon dated February 12, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of CDRLF in a separate letter dated February 12, 2007.

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

A handwritten signature in cursive script that reads "Deloitte Touche LLP". The signature is written in black ink and is positioned above a thin red horizontal line. To the left of the signature, there is a vertical black line that extends downwards from the top of the signature area.

February 12, 2007