NCUA 2007
FINANCIAL STATEMENT AUDITS
FOR

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

For the year ended December 31, 2007

Audited Financial Statements	Audit Report Number
NCUA Operating Fund	OIG-08-01
National Credit Union Share Insurance Fund	OIG-08-02
Central Liquidity Facility	OIG-08-03
Community Development Revolving Loan Fund	OIG-08-04

February 28, 2008

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, 2007.

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, 2007, 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, 2007 and 2006, 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, 2007 and 2006, 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, 2007 and 2006, 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 13, 2008, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Deloitte & Touche LLP

February 13, 2008

NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND

BALANCE SHEETS
AS OF DECEMBER 31, 2007 AND 2006
(Dollars in thousands)

	2007	2006
ASSETS		
CASH AND CASH EQUIVALENTS	$ 24,175	$ 25,394
DUE FROM NATIONAL CREDIT UNION SHARE INSURANCE FUND (Note 4)	272	-
EMPLOYEE ADVANCES	143	902
OTHER ACCOUNTS RECEIVABLE (Note 5)	169	172
PREPAID EXPENSES AND OTHER ASSETS	1,799	1,683
FIXED ASSETS — Net of accumulated depreciation and amortization (Note 3)	34,213	35,309
TOTAL	$ 60,771	$ 63,460
LIABILITIES AND FUND BALANCE		
LIABILITIES:		
Accounts payable	$ 4,216	$ 3,817
Obligations under capital leases (Note 6)	1,246	2,138
Accrued wages and benefits	3,225	2,571
Accrued annual leave	8,575	8,319
Accrued employee travel	5	11
Due to National Credit Union Share Insurance Fund	-	98
Note payable to National Credit Union Share Insurance Fund (Note 4)	21,120	22,461
Total liabilities	38,387	39,415
FUND BALANCE (Note 11)	22,384	24,045
TOTAL	$ 60,771	$ 63,460

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, 2007 AND 2006
(Dollars in thousands)

	2007	2006
REVENUES:		
Operating fees	$ 63,961	$ 63,577
Interest	2,213	2,203
Other	303	179
Total revenues	66,477	65,959
EXPENSES (Note 4):		
Employee wages and benefits	51,902	46,740
Travel	6,802	5,583
Rent, communications, and utilities	1,905	1,594
Contracted services	2,961	2,900
Other	4,568	4,018
Total expenses	68,138	60,835
EXCESS OF (EXPENSES OVER REVENUES) REVENUES OVER EXPENSES	(1,661)	5,124
FUND BALANCE — Beginning of year	24,045	18,921
FUND BALANCE — End of year	$ 22,384	$ 24,045

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(Dollars in thousands)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of (expenses over revenues) revenues over expenses	$ (1,661)	$ 5,124
Adjustments to reconcile excess of (expenses over revenues) revenues over expenses to net cash provided by operating activities:		
Depreciation and amortization	3,312	3,719
Provision for loss on disposal of employee residences held for resale	280	261
Loss on disposal of fixed assets	-	1
(Increase) decrease in assets:		
Due from National Credit Union Share Insurance Fund	(370)	231
Employee advances	759	(67)
Other accounts receivable	3	308
Prepaid expenses	(156)	(237)
(Decrease) increase in liabilities:		
Accounts payable	399	(2,582)
Accrued wages and benefits	654	(3,820)
Accrued annual leave	256	122
Accrued employee travel	(6)	(9)
Net cash provided by operating activities	3,470	3,051
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of fixed assets	(2,250)	(1,049)
Purchases of employee residences held for sale	(1,530)	(1,839)
Proceeds from sale of employee residences held for resale	1,290	813
Net cash used in investing activities	(2,490)	(2,075)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of note payable	(1,341)	(1,341)
Principal payments under capital lease obligations	(858)	(971)
Net cash used in financing activities	(2,199)	(2,312)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,219)	(1,336)
CASH AND CASH EQUIVALENTS — Beginning of year	25,394	26,730
CASH AND CASH EQUIVALENTS — End of year	$ 24,175	$ 25,394
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES — Acquisition of equipment under capital lease	$ 83	$ 2,781
CASH PAYMENTS FOR INTEREST	$ 1,095	$ 889

See notes to financial statements.

1. ORGANIZATION AND PURPOSE

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

2. SIGNIFICANT ACCOUNTING POLICIES

Cash Equivalents — The Federal Credit Union Act permits the Fund to make investments in United States Government securities or securities guaranteed as to both principal and interest by the United States Government. Cash equivalents are highly liquid investments with original maturities of three months or less. All investments in 2007 and 2006 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, 2007 and 2006 (in thousands):

	2007	2006
Office building and land	$ 43,358	$ 42,651
Furniture and equipment	12,812	11,900
Equipment under capital leases	2,846	2,983
Assets under construction	320	139
Total	59,336	57,673
Less accumulated depreciation and amortization	(25,123)	(22,364)
Fixed assets — net	$ 34,213	$ 35,309

Accumulated amortization balances for equipment under capital leases as of December 31, 2007 and 2006, were (in thousands) $1,718 and $964, respectively.

4. TRANSACTIONS WITH NCUSIF

Certain administrative services are provided by the Fund to NCUSIF. The Fund charges NCUSIF for these services based upon an annual allocation factor approved by the NCUA Board and derived from a study of actual usage. The allocation factor to NCUSIF was 53.3% in 2007 and 57% in 2006. The cost of the services allocated to NCUSIF, which totaled approximately $77,766,000 and $80,642,000 for 2007 and 2006, 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 $967,000 and $873,000 for 2007 and 2006, respectively. The note payable balances at December 31, 2007, and 2006, were approximately $21,120,000 and $22,461,000, respectively.

The above note requires principal repayments at December 31, 2007 as follows (in thousands):

Years Ending December 31	Secured Term Note
2008	$ 1,341
2009	1,341
2010	1,341
2011	1,341
2012	1,341
Thereafter	14,415
Total	$ 21,120

The variable rate on the note is equal to NCUSIF's prior-month yield on investments. The average interest rates during 2007 and 2006 were 4.45% and 3.79%, respectively. The interest rates at December 31, 2007, and 2006, were 4.39% and 4.29%, 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 $240,000 and $253,000 for 2007 and 2006, respectively, and are reflected as a reduction of the corresponding expenses in the accompanying financial statements.

Other accounts receivable include approximately $103,000 and $95,000 of amounts due from NCUA CLF as of December 31, 2007, and 2006, 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 $741,500 and $741,600 of which approximately $395,200 and $422,700 was reimbursed by NCUSIF for 2007 and 2006, 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 2012.

The future minimum lease payments as of December 31, 2007, are as follows (in thousands):

Years Ending December 31	Operating Leases	Capital Leases
2008	$ 739	$ 970
2009	756	258
2010	479	18
2011	487	18
2012	479	6
Thereafter	395	-
Total	$ 3,335	1,270
Less imputed interest		(24)
Present value of minimum lease payments		$ 1,246

Based on the allocation factor approved by the NCUA Board for 2008, NCUSIF will reimburse the Fund for approximately 52% of the future operating lease payments.

7. RETIREMENT PLANS

The employees of the Fund are participants in the Civil Service Retirement and Disability Fund, which includes the Federal Employees' Retirement System (FERS). Both plans are defined benefit retirement plans covering all of the employees of the Fund. FERS is comprised of a Social Security Benefits Plan, a Basic Benefits Plan, and a Savings Plan. Contributions to the plans are based on a percentage of employees' gross pay. Under the Savings Plan, employees can also elect additional contributions, subject to Internal Revenue Service (IRS) limitations, and the Fund will match up to 5% of the employees' gross pay. In 2007 and 2006, the Fund's contributions to the plans were approximately $11,947,000 and $11,630,000, respectively, of which approximately $6,368,000 and $6,629,000, respectively, were reimbursed by NCUSIF.

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

8. DISCLOSURES OF FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	December 31, 2007		December 31, 2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 24,175	$ 24,175	$ 25,394	$ 25,394
Due from NCUSIF	272	272	-	-
Due to NCUSIF	-	-	98	98
Employee advances	143	143	902	902
Other accounts receivable	169	176	172	172
Accounts payable	4,216	4,216	3,817	3,817
Obligation under capital lease	1,246	1,246	2,138	2,138
Note payable to NCUSIF	21,120	21,120	22,461	22,461

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 $45,000 and $167,000 during 2007 and 2006, respectively.

The NCUA Board does not plan to allow hurricane-affected credit unions to pay a reduced operating fee in 2008.

11. RETAINED EARNINGS APPROPRIATION

In 2006, the NCUA Board established an appropriation of the Fund's fund balance in an effort to more transparently disclose and communicate to stakeholders earnings that are needed for major projects that cannot be accrued or that do not warrant inclusion in the annual operating expense budget. The initial appropriation of $1,000,000 is for repairs and maintenance on NCUA's Alexandria headquarters building. In 2007, this amount did not change.

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

To the Inspector General of
National Credit Union Administration:

We have audited the financial statements of the National Credit Union Administration Operating Fund (the "Fund"), as of and for the year ended December 31, 2007, and have issued our report thereon dated February 13, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

We noted certain matters that we have reported to the management of the Fund in a separate letter dated February 13, 2008.

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

Deloitte & Touche LLP

February 13, 2008

National Credit Union Share Insurance Fund

Financial Statements as of and for the
Years Ended December 31, 2007 and 2006, 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, 2007 and 2006, 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, 2007 and 2006, 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 13, 2008, 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.

Deloitte & Touche LLP

February 13, 2008

NATIONAL CREDIT UNION SHARE INSURANCE FUND

BALANCE SHEETS
AS OF DECEMBER 31, 2007 AND 2006
(Dollars in thousands)

	2007	2006
ASSETS		
INVESTMENTS (Note 6)	$5,974,315	$5,257,216
CASH AND CASH EQUIVALENTS	1,391,816	1,683,462
ACCRUED INTEREST RECEIVABLE	60,051	63,244
DUE FROM NATIONAL CREDIT UNION ADMINISTRATION OPERATING FUND (Note 8)	-	98
ASSETS ACQUIRED IN ASSISTANCE TO INSURED CREDIT UNIONS	65,884	14,461
LOANS TO CREDIT UNIONS	-	15,000
NOTE RECEIVABLE — National Credit Union Administration Operating Fund (Note 8)	21,120	22,461
CONTRIBUTIONS RECEIVABLE FROM INSURED CREDIT UNIONS	154	47
FIXED ASSETS — Net of accumulated depreciation and amortization (Note 3)	403	762
TOTAL	$7,513,743	$7,056,751
LIABILITIES AND FUND BALANCE		
LIABILITIES:		
Estimated losses from supervised credit unions (Note 4)	$ 215,780	$ 70,229
Amounts due to insured shareholders of liquidated credit unions	4,893	7,291
Due to National Credit Union Administration Operating Fund (Note 8)	272	-
Due to credit unions	30,853	-
Accounts payable	35	109
Obligations under capital leases (Note 9)	440	806
Total liabilities	252,273	78,435
FUND BALANCE:		
Insured credit unions’ accumulated contributions	5,585,256	5,306,286
Insurance fund balance	1,676,214	1,672,030
Total fund balance	7,261,470	6,978,316
TOTAL	$7,513,743	$7,056,751

See notes to financial statements.

NATIONAL CREDIT UNION SHARE INSURANCE FUND

STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(Dollars in thousands)

	2007	2006
REVENUES:		
Interest	$ 320,163	$ 264,895
Other	1,166	1,326
Total revenues	321,329	266,221
EXPENSES (Note 8) —		
Administrative expenses:		
Employee wages and benefits	59,237	61,958
Travel	7,764	7,401
Rent, communications, and utilities	2,174	2,113
Contracted services	3,379	3,844
Provision for insurance losses (Note 4)	186,397	2,548
Other	6,664	6,740
Total expenses	265,615	84,604
EXCESS OF REVENUES OVER EXPENSES	$ 55,714	$ 181,617

See notes to financial statements.

NATIONAL CREDIT UNION SHARE INSURANCE FUND

STATEMENTS OF FUND BALANCE
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(Dollars in thousands)

	Insured Credit Unions' Accumulated Contributions	Insurance Fund Balance
BALANCE — January 1, 2006	$ 5,128,031	$ 1,490,413
Contributions from insured credit unions	178,255	-
Excess of revenues over expenses	-	181,617
BALANCE — December 31, 2006	5,306,286	1,672,030
Contributions from insured credit unions	278,970	-
Excess of revenues over expenses	-	55,714
Dividends to insured credit unions	-	(51,530)
BALANCE — December 31, 2007	$ 5,585,256	$ 1,676,214

See notes to financial statements.

NATIONAL CREDIT UNION SHARE INSURANCE FUND

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(Dollars in thousands)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of revenues over expenses	$ 55,714	$ 181,617
Adjustments to reconcile excess of revenues over expenses to cash provided by operating activities:		
Depreciation and amortization	314	415
Amortization of premiums and discounts on investments — net	(24,536)	1,806
Reserves (recoveries) relating to losses from supervised credit unions — net	145,551	(2,747)
Decrease (increase) in assets:		
Accrued interest receivable	3,193	(11,142)
Assets acquired in assistance to insured credit unions — net	(51,423)	3,127
Increase (decrease) in liabilities:		
Amounts due to insured shareholders of liquidated credit unions	(2,398)	(966)
Amounts due to National Credit Union Administration Operating Fund	370	(231)
Cash assistance liability	-	(2,357)
Accounts payable	(74)	74
Due to credit unions	30,853	-
Net cash provided by operating activities	157,564	169,596
CASH FLOWS FROM INVESTING ACTIVITIES:		
Loans to credit unions	-	(15,000)
Repayment of loans to credit unions	15,000	-
Purchases of investments	(2,392,563)	(2,550,812)
Proceeds from maturities of investments	1,700,000	2,100,000
Collections on note receivable — National Credit Union Administration Operating Fund	1,341	1,341
Net cash used in investing activities	(676,222)	(464,471)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions from insured credit unions	278,863	179,948
Dividends paid	(51,530)	-
Principal payments under capital lease obligation	(321)	(374)
Net cash provided by financing activities	227,012	179,574
NET DECREASE IN CASH AND CASH EQUIVALENTS	(291,646)	(115,301)
CASH AND CASH EQUIVALENTS — Beginning of year	1,683,462	1,798,763
CASH AND CASH EQUIVALENTS — End of year	$ 1,391,816	$ 1,683,462
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES — Acquisition of equipment under capital lease	$ -	$ 1,073
CASH PAYMENTS FOR INTEREST	$ 15	$ 5

See notes to financial statements.

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 nonperforming assets of a credit union experiencing financial difficulty. These acquired assets are maintained by the Asset Management and Assistance Center in Austin, TX, 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 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, 2007 and 2006, fixed assets are comprised of the following (in thousands):

	2007	2006
Furniture and equipment	$ 501	$ 501
Equipment under capital leases	1,027	1,073
Total	1,528	1,574
Less — accumulated depreciation and amortization	(1,125)	(812)
Fixed assets — net	$ 403	$ 762

Accumulated amortization balances for equipment under capital leases as of December 31, 2007 and 2006, totaled (in thousands) $624 and $311, 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 nonspecified 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, 2007 and 2006 is $561.9 billion and $535.3 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 $216 million and $70 million at December 31, 2007 and 2006, 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 nonperformance. No such guarantees were outstanding at December 31, 2007 and 2006. 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, 2007 and 2006 are approximately $206.5 million and $20 million, respectively. The total balances outstanding under these line-of-credit guarantees at December 31, 2007 and 2006 are approximately $109.5 million and $0, respectively. The carrying amount of the liability as of December 31, 2007 and 2006 for the outstanding NCUSIF guarantees is $5.1 million and $422,876, respectively. All guarantees outstanding at December 31, 2007 expire on March 31, 2008 and May 31, 2008.

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, 2007 and 2006.

The activity in the reserves for estimated losses from supervised credit unions for the periods ended December 31, 2007 and 2006 was as follows (in thousands):

	2007	**2006**
Beginning balance	$ 70,229	$ 72,976
Insurance losses	(48,484)	(10,833)
Recoveries	7,638	5,538
Provision for insurance losses	186,397	2,548
Ending balance	$ 215,780	$ 70,229

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

Specific reserves — increased from $19,062,296 at December 31, 2006, to $161,630,199 at December 31, 2007.

General reserves — increased from $51,167,075 at December 31, 2006, to $54,150,000 at December 31, 2007.

The increased level of specific reserves is attributable to the presence of high-risk business activities of a small number of credit unions that were vulnerable to adverse economic and market conditions. The higher provision for insurance losses is also attributed to the deterioration in economic conditions.

In addition to these recorded contingent liabilities, additional risk in the financial services industry could result in additional loss to the NCUSIF. The accuracy of the estimated losses from supervised credit unions will largely depend upon future economic and market conditions.

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%.

The NCUA Board set the normal operating level for 2008 and 2007 at 1.30%. The calculated equity ratios at December 31, 2007 and 2006 were 1.292% and 1.304%, 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 not declare dividends payable on insured shares as of December 31, 2007, because the equity ratio of 1.292% is below the normal operating level of 1.30%. Dividends of $51,530 were declared and paid during 2007 because the equity ratio at December 31, 2006, of 1.304% was above the normal operating ratio of 1.30%. Total insured shares as of December 31, 2007 and 2006, were estimated to be $561.9 billion and $535.3 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, 2007 and 2006, investments consist of the following (in thousands):

	2007				
	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	4.26 %	$ 1,594,463	$ 8,709	$ -	$ 1,603,172
Maturities after one year through five years	4.53 %	4,379,852	143,570		4,523,422
Total		$ 5,974,315	$ 152,279	$ -	$ 6,126,594

	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 %	3,554,016		(11,891)	3,542,125
Total		$ 5,257,216	$ -	$ (25,029)	$ 5,232,187

Total investment purchases during 2007 and 2006 were approximately $2.4 billion and $2.6 billion, respectively. Investment maturities during 2007 and 2006 were approximately $1.7 billion and $2.1 billion, respectively. The Fund has the capability and management has the intention to hold all investments held at December 31, 2007 and 2006, to maturity. There were no investment sales during 2007 and 2006.

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 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 2007 and 2006.

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 53.3% to the Fund for 2007 and 57% for 2006. The cost of services provided by the NCUA Operating Fund was approximately $77,766,000 and $80,642,000 for 2007 and 2006, respectively, and includes pension contributions of approximately $6,368,000 and $6,629,000 to the Civil Service Retirement System and Federal Employees Retirement System defined benefit retirement plans for 2007 and 2006, 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 $967,000 and $873,000 for 2007 and 2006, respectively. The note receivable balances at December 31, 2007 and 2006 were approximately $21,120,000 and $22,461,000, respectively.

The above note matures as follows (in thousands):

Years Ending December 31	Secured Term Note
2008	$ 1,341
2009	1,341
2010	1,341
2011	1,341
2012	1,341
Thereafter	14,415
Total	$ 21,120

The variable rate on the term note is equal to the Fund's prior-month yield on investments. The average interest rates during 2007 and 2006 were approximately 4.45% and 3.79%, respectively. At December 31, 2007 and 2006, the rates were 4.39 % and 4.29%, 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 53.3% of the total lease payments. The cost of services provided by the NCUA Operating Fund includes rental charges of approximately $395,200 and $422,700 for December 31, 2007 and 2006, respectively.

Based on the allocation factor approved by the NCUA Board for 2008, NCUSIF will reimburse the Fund for approximately 52% 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, 2007, is expected to be as follows (in thousands):

Years Ending December 31	
2008	$ 384
2009	393
2010	249
2011	253
2012	249
Thereafter	206
Total	$ 1,734

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, 2007, is as follows (in thousands):

2008	$ 360
2009	90
Total	450
Less imputed interest	(10)
Present value of minimum lease payments	$ 440

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, 2007 and 2006 are as follows:

	2007		2006	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Investments	$5,974,315	$6,126,594	$5,257,216	$5,232,187
Cash and cash equivalents	1,391,816	1,391,816	1,683,462	1,683,462
Accrued interest receivable	60,051	60,051	63,244	63,244
Loans to credit unions			15,000	15,000
Notes receivable — NCUA Operating Fund	21,120	21,120	22,461	22,461
Contributions receivable from insured credit unions	154	154	47	47
Amounts due to insured shareholders of liquidated credit unions	4,893	4,893	7,291	7,291
Due (to) from NCUA Operating Fund	(272)	(272)	98	98
Accounts payable	30,888	30,888	109	109
Obligations under capital leases	440	440	806	806

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, 2007, and have issued our report thereon dated February 13, 2008. 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 13, 2008.

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

Deloitte & Touche LLP

February 13, 2008

National Credit Union Administration Central Liquidity Facility

Financial Statements as of and for the
Years Ended December 31, 2007 and 2006,
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, 2007 and 2006, 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, 2007 and 2006, 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 13, 2008, on our consideration of CLF's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Deloitte & Touche LLP

February 13, 2008

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

BALANCE SHEETS
AS OF DECEMBER 31, 2007 AND 2006
(In thousands)

	2007	2006
ASSETS		
ASSETS:		
Cash	$ 12	$ 12
Investments with U.S. Central Federal Credit Union (Notes 5, 8, 9, and 11)	1,638,285	1,549,678
Accrued interest receivable	23,922	21,386
TOTAL	$1,662,219	$1,571,076
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES:		
Accounts payable and other liabilities	$ 132	$ 130
Dividends payable (Note 7)	23,777	21,267
Member deposits (Note 7)	642	622
Total liabilities	24,551	22,019
MEMBERS' EQUITY:		
Capital stock — required (Note 7)	1,626,260	1,537,649
Retained earnings	11,408	11,408
Total members' equity	1,637,668	1,549,057
TOTAL	$1,662,219	$1,571,076

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(In thousands)

	2007	2006
REVENUE :		
Investment income	$ 89,259	$ 78,213
Interest — loans to members (Note 6)	-	75
Total revenue	89,259	78,288
EXPENSES (Note 10):		
Personnel services	144	141
Other services	48	63
Rent, communications, and utilities	10	8
Personnel benefits	33	33
Supplies and materials	1	3
Printing and reproduction	4	5
Total operating expenses	240	253
Interest — Federal Financing Bank loans (Note 6)	-	75
Interest — liquidity reserve	53	37
Total expenses	293	365
EXCESS OF REVENUE OVER EXPENSES	$ 88,966	$ 77,923

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

STATEMENTS OF MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(In thousands)

	Capital Stock	Retained Earnings
BALANCE — January 1, 2006	$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	-	77,923
BALANCE — December 31, 2006	1,537,649	11,408
Issuance of required capital stock	89,709	-
Redemption of required capital stock	(1,098)	-
Dividends	-	(88,966)
Excess of revenue over expenses	-	88,966
BALANCE — December 31, 2007	$1,626,260	$ 11,408

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(In thousands)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of revenue over expenses	$ 88,966	$ 77,923
Adjustments to reconcile excess of revenue over expenses to net cash provided by operating activities:		
Increase in accrued interest receivable	(2,536)	(6,829)
Increase in accounts payable and other liabilities	2	10
Net cash provided by operating activities	86,432	71,104
CASH FLOWS FROM INVESTING ACTIVITIES —		
Purchase of investments — net	(88,607)	(79,288)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Additions to member deposits	1,872	1,578
Issuance of required capital stock	89,709	81,143
Dividends	(86,456)	(71,131)
Withdrawal of member deposits	(1,852)	(1,465)
Redemption of required capital stock	(1,098)	(1,939)
Net cash provided by financing activities	2,175	8,186
NET INCREASE IN CASH	-	2
CASH — Beginning of year	12	10
CASH — End of year	$ 12	$ 12
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION — Cash paid during the year for interest	$ 52	$ 108

See notes to financial statements.

1. ORGANIZATION AND PURPOSE

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

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 (USC) (Notes 5 and 9). These are nontransferable, nonnegotiable instruments that are acquired at face value and carried at cost.

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

Cash — The carrying amounts for cash approximate fair value.

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

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

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

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

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

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

3. 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 U.S. Government and its agencies, deposits in federally insured financial institutions, and shares and deposits in credit unions. Borrowing is limited by statute to 12 times the subscribed capital stock and surplus. 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, 2007 and 2006, CLF was in compliance with its borrowing authority. Borrowings would be from the FFB with interest generally payable upon maturity (Note 6).

4. LOANS TO MEMBERS

There were no loans or loan commitments outstanding at December 31, 2007 and 2006. 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 at December 31, 2007 and 2006, are invested as follows (in thousands):

	2007	2006
U.S. Central Federal Credit Union Share Account	$1,632,285	$1,545,678
U.S. Central Federal Credit Union Share Certificates	6,000	4,000
	$1,638,285	$1,549,678

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

As provided in the MOU, all investments by CLF in shares of USC will be in either the Share Account or Share Certificates. The Share Account is a three-month, fixed rate account that provides for automatic re-investment at maturity and 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 12 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 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, 2008. Congress, however, has restricted CLF's borrowing authority to $1.5 billion for the fiscal years 2006, 2007 and 2008, 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. No borrowing or lending occurred during 2007.

The Secretary of the Treasury is authorized by the Act to lend up to $500 million to CLF in the event that the NCUA 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 NCUA Board. These unremitted subscriptions are not reflected in CLF's financial statements. Subscriptions are adjusted annually to reflect changes in the member credit unions' paid-in and unimpaired capital and surplus. Dividends are 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 2007 and 2006 to be paid in 2008 and 2007, respectively.

8. U.S. CENTRAL FEDERAL CREDIT UNION MEMBERSHIP

During fiscal year 1984, CLF accepted a membership request from USC on behalf of its corporate credit union members. At December 31, 2007 and 2006, $1,565,647,000 and $1,479,256,000, 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 26 and 28 corporate credit union members as of December 31, 2007 and 2006, respectively.

CLF reinvests all of its agent member share capital in USC at market rates of interest. At December 31, 2007 and 2006, approximately $1,638,285,000 and $1,549,678,000, respectively, were invested in USC accounts at 5.77% and 5.46% respective yields, respectively.

9. CONCENTRATION OF CREDIT RISK

At December 31, 2007 and 2006, CLF has a concentration of credit risk for its investments on deposit with USC of approximately $1,638,285,000 and $1,549,678,000, respectively (see Notes 5 and 8).

10. SERVICES PROVIDED BY THE NATIONAL CREDIT UNION ADMINISTRATION

The NCUA provides CLF with data processing and other miscellaneous services and supplies. In addition, the NCUA pays CLF's employees' salaries and benefits as well as CLF's portion of monthly building operating costs. CLF reimburses the NCUA on a monthly basis for these items. The total amounts charged by the NCUA were approximately $240,000 and $253,000 for the years ended December 31, 2007 and 2006, respectively. As of December 31, 2007 and 2006, accounts payable and other liabilities include approximately $103,000 and $95,000, respectively, due to the NCUA 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 at December 31, 2007 and 2006, are as follows (in thousands):

	December 31, 2007		December 31, 2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash	$ 12	$ 12	$ 12	$ 12
Funds on deposit with U.S. Central Federal Credit Union	1,638,285	1,638,473	1,549,678	1,549,668
Accrued interest receivable	23,922	23,922	21,386	21,386
Accounts payable and other liabilities	132	132	130	130
Dividends payable	23,777	23,777	21,267	21,267
Member deposits	642	642	622	622

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

To the Inspector General of
National Credit Union Administration:

We have audited the financial statements of the National Credit Union Administration Central Liquidity Facility (CLF) as of and for the year ended December 31, 2007, and have issued our report thereon dated February 13, 2008. 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'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 CLF in a separate letter dated February 13, 2008.

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

Deloitte & Touche LLP

February 13, 2008

National Credit Union Administration Community Development Revolving Loan Fund

Financial Statements as of and for the Years Ended December 31, 2007 and 2006, 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, 2007 and 2006, 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, 2007 and 2006, 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 13, 2008, on our consideration of CDRLF's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Deloitte & Touche LLP

February 13, 2008

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

BALANCE SHEETS
AS OF DECEMBER 31, 2007 AND 2006

	2007	2006
ASSETS		
CASH AND CASH EQUIVALENTS	$ 2,931,422	$ 8,668,980
LOANS — Net of allowance (Note 4)	13,292,065	7,386,864
INTEREST RECEIVABLE	30,154	17,703
TOTAL	$ 16,253,641	$ 16,073,547
LIABILITIES AND FUND BALANCE		
LIABILITIES — Accrued technical assistance	$ 1,308,135	$ 1,091,418
FUND BALANCE:		
Revolving fund capital (Note 3)	13,435,642	13,435,642
Accumulated earnings	1,509,864	1,546,487
Total fund balance	14,945,506	14,982,129
TOTAL	$ 16,253,641	$ 16,073,547

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
SUPPORT AND REVENUES:		
Interest on cash equivalents	$ 264,661	$ 451,184
Interest on loans	98,113	57,271
Appropriation revenue	940,500	892,636
Total support and revenues	1,303,274	1,401,091
EXPENSES:		
Technical assistance	1,436,889	1,224,956
Recoveries of loan losses	(96,992)	(20,180)
Total expenses	1,339,897	1,204,776
EXCESS OF (EXPENSES OVER SUPPORT AND REVENUES) SUPPORT AND REVENUES OVER EXPENSES	$ (36,623)	$ 196,315

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, 2007 AND 2006

	2007	2006
FUND BALANCE — Beginning of year	$ 14,982,129	$ 15,687,950
Change in unexpended appropriations:		
Operating appropriations received (Note 3)	940,500	-
Rescission of appropriations received (Note 3)	-	(9,500)
Appropriation revenue recognized (Note 3)	(940,500)	(892,636)
Excess of (expenses over support and revenues) support and revenues over expenses	(36,623)	196,315
FUND BALANCE — End of year	$ 14,945,506	$ 14,982,129

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of (expenses over support and revenues) support and revenues over expenses	$ (36,623)	$ 196,315
Adjustments to reconcile the excess of (expenses over support and revenues) support and revenues over expenses to net cash used in operating activities:		
Change in unexpended appropriations	(940,500)	(892,636)
Reduction of allowance for loan losses — net of recoveries	-	(20,180)
Changes in assets and liabilities:		
Increase in interest receivable	(12,451)	(6,410)
Increase in accrued technical assistance	216,717	254,153
Net cash used in operating activities	(772,857)	(468,758)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Loan principal repayments	1,853,386	1,331,863
Loan disbursements	(7,758,587)	(4,144,500)
Net cash used in investing activities	(5,905,201)	(2,812,637)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Appropriations received	940,500	-
Recission of appropriations received	-	(9,500)
Net cash provided by (used in) financing activities	940,500	(9,500)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(5,737,558)	(3,290,895)
CASH AND CASH EQUIVALENTS — Beginning of year	8,668,980	11,959,875
CASH AND CASH EQUIVALENTS — End of year	$ 2,931,422	$ 8,668,980

See notes to financial statements.

1. NATURE OF ORGANIZATION

The Community Development Revolving Loan Fund for Credit Unions (CDRLF) was established by an act of Congress (Public Law 96-123, November 20, 1979) to stimulate economic development in low-income communities. The National Credit Union Administration (NCUA) and the Community Services Association (CSA) jointly adopted Part 705 of NCUA Rules and Regulations, governing administration of the 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 2007 and 2006 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, 2007 and 2006, 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 $19,564,392 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 $5,790,000 and $4,553,000 at December 31, 2007 and 2006, 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 the Federal government's fiscal year 2006-2007. Appropriation revenue in the amount of $793,600 was recognized in 2005, leaving a balance to be carried over into 2006 in the amount of $1,148,400. Of the amount, $198,400 was designated to be used as revolving fund capital and the remainder for technical assistance.

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

During the year ended December 31, 2007, appropriations for technical assistance in the amount of $940,500 were received for the Federal government's fiscal years 2007–2008. The amount was designated to be used as operating appropriations for technical assistance and no amount was designated to be used as revolving fund capital.

For the appropriations received for technical assistance for the Federal government's fiscal year 2007–2008, $940,500 expires on September 30, 2008. Appropriations of $975,000 for technical assistance grants are proposed for fiscal 2008–2009.

	Public Laws			
	No. 108-199	No. 109-115	No. 110-5	Total
Activities by each appropriation:				
Operating appropriation received — 2005	$ 198,400	$ 950,000	$ -	$ 1,148,400
Operating appropriation rescinded — 2006	-	(9,500)	-	(9,500)
Appropriation revenue recognized — 2006	-	892,636	-	892,636
Operating appropriation received — 2007	-	-	940,500	940,500
Appropriation revenue recognized — 2007	-	-	940,500	940,500
Balance — December 31, 2007	$ 198,400	$ 47,864	$ -	$ 246,264

	2007	2006
Unexpended appropriations:		
Balance — beginning of the year	$ 1,141,442	$ 2,043,578
Operational appropriations received (rescinded)	940,500	(9,500)
Appropriation revenue recognized	(940,500)	(892,636)
Balance of unexpended appropriations — end of year	$ 1,141,442	$ 1,141,442
Revolving fund capital:		
Balance — beginning of the year	$ 13,435,642	$ 14,337,778
Change in unexpended appropriations	-	(902,136)
Balance of revolving fund capital — end of year	$ 13,435,642	$ 13,435,642

4. LOANS

Loans outstanding at December 31, 2007 and 2006, are scheduled to be repaid during the following subsequent years:

	2007	2006
2007	$ -	$ 1,828,997
2008	2,738,295	1,655,690
2009	3,075,324	1,549,027
2010	2,775,356	1,247,700
2011	2,657,106	1,105,450
2012	2,045,984	-
Net loans outstanding	$ 13,292,065	$ 7,386,864

Changes in the allowance for loan losses are summarized below:

	2007	2006
Balance — beginning of year	$ -	$ 20,180
Reduction of provision for allowance for loan losses	-	(20,180)
Balance — end of year	$ -	$ -

5. CONCENTRATION OF CREDIT RISK

At December 31, 2007 and 2006, there are no significant concentrations of credit risk in the loan portfolio. As discussed in Note 1, CDRLF provides loans to credit unions that serve predominantly low-income communities.

6. ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

Loans — The fair value is estimated by discounting projected future cash flows using current market interest rates. For purposes of this calculation, the discount rate used was the prime interest rate plus two percent (5.26% and 6.76% at December 31, 2007 and 2006, respectively).

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

	December 31, 2007		December 31, 2006	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:				
Cash and cash equivalents	$ 2,931,422	$ 2,931,422	$ 8,668,980	$ 8,668,980
Loans	$ 13,292,065	$ 11,817,193	$ 7,386,864	$ 6,358,776
Interest receivable	$ 30,154	$ 30,154	$ 17,703	$ 17,703
Liabilities — accrued technical assistance	$ 1,308,135	$ 1,308,135	$ 1,091,418	$ 1,091,418

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.

* * * * * *

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, 2007, and have issued our report thereon dated February 13, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of CDRLF in a separate letter dated February 13, 2008.

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

Deloitte & Touche LLP

February 13, 2008