

NATIONAL CREDIT UNION ADMINISTRATION

OFFICE OF INSPECTOR GENERAL

**NCUA FINANCIAL STATEMENT AUDITS
FOR
OPERATING FUND
SHARE INSURANCE FUND
CENTRAL LIQUIDITY FACILITY
COMM. DEVELOPMENT LOAN PROGRAM**



For the year ended December 31, 2000

Audited Financial Statements	Audit Report Number
NCUA Operating Fund	OIG-01-02
National Credit Union Share Insurance Fund	OIG-01-03
Central Liquidity Facility	OIG-01-04
Community Development Revolving Loan Program	OIG-01-05

March 31, 2001

A handwritten signature in black ink that reads 'Frank Thomas'.

Frank Thomas

Inspector General

NATIONAL CREDIT UNION ADMINISTRATION
AUDIT OF THE 2000 FINANCIAL STATEMENTS

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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 Program, for the year ended December 31, 2000.

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

The audits were performed in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States. The NCUA Office of Inspector General reviewed the independent firm's workpapers, as part of its oversight function.

FINANCIAL STATEMENT CONTRACT

Deloitte & Touche contracted with the Inspector General in May 1996 to perform the financial statement audits mentioned above. The contract was for 1996, with four option years. The Assistant Inspector General for Audits is the contracting officer's technical representative 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 Program, at December 31, 2000, and the results of operations for the year then ended.

Although Deloitte & Touche does 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 the following recommendations related to internal control over financial reporting and certain observations and recommendations on other accounting, administrative, and operating matters.

OBSERVATIONS AND RECOMMENDATIONS

SAP SECURITY AND CONTROL WEAKNESSES

Observation:

The Office of Inspector General (OIG) recently completed a SAP Security and Control Review for SAP R/3, version 4.6b. The following significant issues were noted during the review:

- NCUA does not currently maintain sufficient SAP technical and functional documentation;
- Individuals have excessive access to the “SAP_ALL” privilege and inappropriate access to SAP security administration functionality;
- NCUA is not performing sufficient SAP security monitoring;
- NCUA does not have adequate SAP Change Control procedures (currently all SAP contractors and SAP support personnel have the ability to make changes to the production SAP application); and,
- SAP security does not systematically enforce segregation of duties within the Materials Management, Financial Accounting, and Controlling modules.

If users are granted access beyond the minimum level necessary to perform their job functions, segregation of duties may be compromised. This could result in unauthorized or invalid transactions or in loss of data, assets, or other resources.

Recommendation:

The Office of the Chief Information Officer (OCIO) has reported that many of the noted control weaknesses were addressed during the recent upgrade of SAP R/3 to version 4.6c. The OCIO will address the remaining issues in the near future and the Office of Inspector General is monitoring their progress.

WINDOWS NT SECURITY

Observation:

NCUA currently is in the process of upgrading its network operating system from Windows NT to Windows 2000. However, the servers that support the SAP financial application still reside on a separate Windows NT domain. Currently, there are no plans to upgrade these servers to Windows 2000 and incorporate them into the new Windows 2000 Active Directory structure.

During a review of the Windows NT Account Policy, which enforces user authentication settings for the Windows NT Domain that supports SAP (domain name: SAP), we noted the following:

- Passwords are not set to expire
- Users are allowed to use blank passwords
- No minimum password length is required
- Account lockout settings are not enabled
- Password history requirements are not established

Additionally, we were informed that OCIO personnel and contractors that access this Windows NT domain are sharing the system-delivered domain administration account, “Administrator.” This account has full access to all of the files and data stored within the domain. Allowing individuals to share this account prevents NCUA from assigning accountability to individuals for actions performed using the account.

Recommendation:

We recommend that NCUA:

- Enable the following Windows NT Account Policy for the SAP domain that is still running under Windows NT:
 - Password expiration should be set to occur every 120 days;
 - Minimum password length should be set to at least six characters;
 - Account lockout should occur after three consecutive, unsuccessful login attempts;
 - Reset account lockout counter after 99,999 minutes (maximum value);
 - Lockout duration should be set at “Forever”;
 - Minimum password age should be set to at least one day; and
 - Retention of previous passwords should be set to at least five.
- Disable the system-delivered account “Administrator” and assign unique user accounts to all domain users. These user accounts should be assigned to groups that only grant them the minimal level of access that they require to perform their job responsibilities; and,
- Develop a plan to migrate the SAP domain from Windows NT to Windows 2000 and incorporate it into the new Windows 2000 Active Directory. Windows 2000 will offer significantly enhanced user authentication settings that are not offered by Windows NT.

SAP INFORMATION TECHNOLOGY CONTROLS

Observation:

Currently NCUA's SAP System Administrator controls many of the key aspects of information technology support and control that are associated with the SAP financial application. In addition to controlling SAP application-level security, this individual also controls the Windows NT security administration, Microsoft SQL database administration, disaster recovery planning, back ups, and server and operating system support specific to the SAP financial application.

By allowing one individual to be primarily responsible for these functions, NCUA is at risk that these information technology support functions could not be performed effectively in the absence of the SAP System Administrator. This also represents a significant segregation of duties issue. The SAP System Administrator has the ability to access and/or modify every component of the SAP financial application.

Recommendation:

We recommend that NCUA either train other OCIO personnel to perform, or reassign responsibility for performing, information technology support for the technologies and infrastructure associated with SAP. This should result in an increased segregation of duties and reduce the dependency of NCUA on the SAP System Administrator to perform these key information technology support roles for the SAP financial application.

NETWORK CONNECTIVITY

Observation:

Single points of failure have not yet been eliminated in the design and configuration of the NCUA wide-area network. If the frame relay service, which provides the only means of network connectivity to NCUA regional offices, becomes unavailable, there are no alternate network connections between the NCUA headquarters and the regional offices. Without secondary connectivity, the regional offices will not be able to access critical application systems and data that reside on the servers at NCUA headquarters.

Recommendation:

We are aware that NCUA has plans to redesign the telecommunications architecture of its wide-area network during fiscal year 2001. As part of this redesign, NCUA will implement ISDN back-up network connections to all of its regional offices. We endorse this effort and encourage NCUA to complete the wide-area network redesign in an expeditious manner.

EMPLOYEE RELOCATION ADVANCES

Observation:

We found \$105,625 of employee relocation advances that ranged in age from 250 days from the original advance to five years. Based on NCUA's internal advances policy, which is predicated on the Federal Credit Union Act, the Competitive Equality Banking Act, and the Federal Travel Regulations, "the employee is expected to repay the advance as soon as possible after completion of the various phases of the move, but no later than 120 days after completion of routine relocation travel expenses." In addition, "the CFO office should be reviewing these items at least annually to identify possible errors or cases where relocation expenses have been claimed without reducing the outstanding travel advance balance."

Recommendation:

The NCUA Office of the Chief Financial Officer should review employee relocation advances at least quarterly to ensure timely submission of required expense reports and recovery of unspent amounts.

COMMUNITY DEVELOPMENT REVOLVING LOAN FUND (CDRLF) LOANS

Observation:

A check request for a loan was submitted by the CDRLF and the U.S. Treasury prepared the check on December 11, 2000. However, the loan package (consisting of the loan document and the check) was not issued to the recipient until January 3, 2001. We understand that the package was not released because the appropriate staff person was on leave. The check was properly secured during this time; however, the loan recipient did not have the benefit of the funds during the period.

Recommendation:

Particular care should be given at the close of accounting periods to ensure that all transactions are processed on a timely basis and recorded in the proper period. Personnel should be cross-trained to ensure that critical duties are conducted despite scheduled leave.

CURRENT STATUS OF PRIOR-YEAR COMMENTS

CHANGE CONTROL PROCEDURE

NCUA has a process in place to document, track, and approve changes to applications, networks, and access security. However, this process is not formally documented. Without proper and consistent change control procedures, changes to the various systems may be made without specific approval from managers. As a result, errors may be introduced in the production environment causing unreliable processing results or unintentional loss or alteration of data.

Status :

NCUA has not established a formal application change control function for its SAP financial application. Currently, all SAP contractors and SAP support personnel have the systematic ability to make changes to the production SAP application.

Further Recommendation:

We recommend that NCUA establish a formal SAP change control function, whereby individuals not involved in the SAP application development process are the only individuals with the systematic access necessary to modify the production SAP financial application.

ADMINISTRATION AND SECURITY PROCEDURES

Observation:

An overall information security policy, including security standards, has been defined for NCUA's computing environment. These standards include password restrictions, account lockouts, userid/passwords for all logins, and general access controls, virus protection, and Internet/Email usage. However, NCUA does not have formal procedures that document the administration, configuration, and security authorization processes for its network and SAP environments. Formal security and system administration procedures help to ensure the consistent application of company security policies, reliable systems processing and adequate safeguarding of the company's information assets. Without these formal procedures, the organization runs the risk of not being able to effectively configure, administer and monitor their systems environment in the manner desired by management.

Status :

NCUA has enhanced its Information Technology Security Program. Additionally, within its *Hi-Tech 2000 Handbook*, NCUA has outlined several end user policies regarding information security and protection. However, we were informed that employees are not required to sign an acknowledgement of the policies outlined in the *Hi-Tech 2000 Handbook*.

Comprehensive end user information security policies are intended to make employees aware of their responsibilities for ensuring the security of all NCUA information resources. Enhancing its current policies and requiring user acknowledgement of these policies should increase NCUA's assurance that information resources are properly utilized and protected.

Further Recommendation:

We recommend that NCUA require employees to complete written acknowledgements of the information security policies outlined in the *Hi-Tech 2000 Handbook*.

FIXED ASSETS

Observation:

NCUA maintains two Asset Master files in the fixed asset and inventory modules within the accounting system. The serial number, location of the asset and the responsible party are recorded in the inventory module Asset Manager. The detail dollar amount for each fixed asset is recorded in the fixed asset module Asset Manager, which agrees with the amounts recorded in the general ledger. The two Asset Manager files have not been reconciled. As a result, there is no audit trail to match the fixed assets observed during a physical count with the recorded fixed assets in the general ledger.

The NCUA Property Management Procedures [NCUA 8054 (M 1702)] were not being followed in the Washington office. Under Section 1 – Identification of Property, each item of nonexpendable agency property is to be identified by a property control serial number, which is affixed by means of a metal tag. We observed that a number of fixed assets were missing tags. Under Section 4 – Inventory of Property, an inventory of property is to be performed at least once annually. We noted that an inventory of the fixed assets had not been performed in 1999.

Recommendation:

A complete and accurate physical inventory should be performed at least annually of all nonexpendable agency personal property in the Washington office in accordance with Section 4 of the NCUA Property Management Procedures. The physical inventory taken should then be reconciled with the fixed asset module Asset Manager.

Status:

We found NCUA had conducted an inventory of fixed assets in 2000 and reconciled the inventory with the fixed asset module.

ACCRUALS

Observation:

During our testing of the adequacy of year-end accruals, we noted several instances where invoices for fixed asset items received prior to year-end had not been accrued. Due to the decentralized nature of the processing of accounts payable activity at the department level, there may have been inconsistent application of the guidelines provided for the year-end processing.

Recommendation:

We recommend that the instructions for the year-end processing of vendor invoices and other transactions for which accruals may be required be clarified and expanded as necessary to ensure consistent implementation.

Status:

The OCFO issued clear instructions for the year-end processing of vendor invoices and other transactions requiring accruals.

AUDIT REPORT FOLLOW-UP

NCUA should respond to this audit report and accompanying recommendations in accordance with the NCUA Audit Follow-up Instruction (1910.6, May 16, 1995).

NATIONAL CREDIT UNION ADMINISTRATION OPERATING FUND

**Financial Statements for the Years Ended
December 31, 2000 and 1999, and
Independent Auditors' Reports**

INDEPENDENT AUDITORS' REPORT

To the Inspector General of the
National Credit Union Administration:

We have audited the accompanying balance sheets of the National Credit Union Administration Operating Fund (the Fund) as of December 31, 2000 and 1999, and the related statements of revenues, expenses, and changes in fund balance, and of cash flows for the years then ended. These financial statements are the responsibility of the National Credit Union Administration Operating 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the National Credit Union Administration Operating Fund as of December 31, 2000 and 1999, 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 16, 2001, on our tests of the National Credit Union Administration Operating Fund's compliance with certain provisions of laws, regulations, contracts and grants, and our consideration of its internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

February 16, 2001

NATIONAL CREDIT UNION ADMINISTRATION OPERATING FUND

BALANCE SHEETS DECEMBER 31, 2000 AND 1999 (Dollars in Thousands)

ASSETS	2000	1999
Cash and cash equivalents	\$ 9,923	\$ 12,695
Due from National Credit Union Share Insurance Fund (Note 4)	938	1,618
Employee advances	663	816
Other accounts receivable	153	258
Prepaid expenses	429	105
Fixed assets - net of accumulated depreciation and amortization (Note 3)	41,197	38,704
Employee residences held for resale	87	452
TOTAL ASSETS	\$ 53,390	\$ 54,648
LIABILITIES AND FUND BALANCE		
LIABILITIES:		
Accounts payable	\$ 3,621	\$ 4,109
Obligations under capital leases (Note 5)	3,860	-
Accrued wages and benefits	4,492	4,390
Accrued annual leave	6,668	5,860
Accrued employee travel	767	828
Notes payable to National Credit Union Share Insurance Fund (Note 4)	<u>31,748</u>	<u>33,161</u>
Total liabilities	51,156	48,348
COMMITMENTS AND CONTINGENCIES (Notes 5 and 8)		
FUND BALANCE	2,234	6,300
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 53,390</u>	<u>\$ 54,648</u>

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION OPERATING FUND

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE YEARS ENDED DECEMBER 31, 2000 AND 1999

(Dollars in Thousands)

	2000	1999
REVENUES:		
Operating fees	\$ 57,752	\$ 53,884
Interest	1,719	1,426
Other	<u>243</u>	<u>258</u>
Total revenues	<u>59,714</u>	<u>55,568</u>
EXPENSES (Note 4):		
Employee wages and benefits	47,054	42,674
Travel	6,951	5,402
Rent, communications, and utilities	1,671	1,839
Contracted services	2,744	2,096
Other	<u>5,360</u>	<u>5,308</u>
Total expenses	<u>63,780</u>	<u>57,319</u>
(DEFICIENCY) OF REVENUES OVER EXPENSES	(4,066)	(1,751)
FUND BALANCE, BEGINNING OF YEAR	<u>6,300</u>	<u>8,051</u>
FUND BALANCE, END OF YEAR	<u>\$ 2,234</u>	<u>\$ 6,300</u>

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION OPERATING FUND

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2000 AND 1999 (Dollars in Thousands)

	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES:		
Deficiency of revenues over expenses	\$ (4,066)	\$ (1,751)
Adjustments to reconcile deficiency of revenues over expenses to cash provided by operating activities:		
Depreciation and amortization	3,637	3,197
Loss on disposal of employee residences held for resale	64	77
Miscellaneous allowances	(8)	10
(Increase) decrease in assets:		
Due from National Credit Union Share Insurance Fund	680	511
Employee advances	153	49
Other accounts receivable	105	(145)
Prepaid expenses	(324)	59
(Decrease) increase in liabilities:		
Accounts payable	(472)	45
Accrued wages and benefits	102	(474)
Accrued annual leave	808	908
Accrued employee travel	(61)	93
	<u>618</u>	<u>2,579</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of fixed assets and employee residences held for resale	(1,651)	(1,884)
Proceeds from sale of employee residences held for resale	<u>810</u>	<u>677</u>
	<u>(841)</u>	<u>(1,207)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of notes payable	(1,413)	(1,413)
Principal payments under capital lease obligation	(1,136)	-
	(2,549)	(1,413)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,772)	(41)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>12,695</u>	<u>12,736</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 9,923</u>	<u>\$ 12,695</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	<u>\$ 1,933</u>	<u>\$ 1,862</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING ACTIVITIES:		
A capital lease obligation of \$4,987 was incurred when the fund entered into a lease for new equipment.		

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION OPERATING FUND

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2000 AND 1999

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 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 2000 and 1999 were cash equivalents and are stated at cost, which approximates market.

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

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

Income Taxes - The Fund is exempt from Federal income taxes under §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, receivable from National Credit Union Share Insurance Fund (NCUSIF), 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 market values.

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

3. FIXED ASSETS

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

	2000	1999
Office building and land	\$ 42,383	\$ 42,246
Furniture and equipment	16,588	22,431
Equipment under capital lease	<u>4,987</u>	<u>-</u>
Total	63,958	64,677
Less: Accumulated depreciation and amortization	<u>(22,761)</u>	<u>(25,973)</u>
Fixed assets - net	<u>\$ 41,197</u>	<u>\$ 38,704</u>

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 derived from an estimate of actual usage. The allocation factor was 50% to NCUSIF and to the Fund for 2000 and 1999. On November 16, 2000, the NCUA Board voted to increase the allocation factor to NCUSIF for 2001 from 50% to 66.72%. The cost of the services allocated to NCUSIF, which totaled approximately \$63,780,000 and \$57,319,000 for 2000 and 1999, respectively, is reflected as a reduction of the corresponding expenses in the accompanying financial statements.

In 1988, the Fund entered into a \$2,161,000 thirty-year unsecured term note with NCUSIF for the purchase of a building. Interest costs incurred were approximately \$76,000 for 2000 and \$74,000 for 1999. The outstanding principal balance at December 31, 2000 and 1999, was \$1,242,000 and \$1,314,000, respectively.

In 1992, the Fund entered into a commitment to borrow up to \$41,975,000 in a thirty-year secured term note with NCUSIF. The monies were drawn as needed to fund the costs of constructing a new building. Interest costs incurred were approximately \$1,857,000 and \$1,788,000 for 2000 and 1999, respectively. The note payable balance at December 31, 2000, was approximately \$30,506,000.

The above notes require principal repayments as follows (in thousands):

	Unsecured Term Note	Secured Term Note	Total
2001	\$ 72	\$ 1,341	\$ 1,413
2002	72	1,341	1,413
2003	72	1,341	1,413
2004	72	1,341	1,413
2005	72	1,341	1,413
Thereafter	882	23,801	24,683
	\$ 1,242	\$ 30,506	\$ 31,748

The variable rate on both notes is equal to NCUSIF's prior-month yield on investments. The average interest rates during 2000 and 1999 were 5.95% and 5.52%, respectively. The interest rate at December 31, 2000, was 6.05%.

5. 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 2004. Office rental charges amounted to approximately \$813,000 and \$888,000 of which approximately \$406,500 and \$444,000 was reimbursed by NCUSIF for 2000 and 1999, respectively. In addition, the Fund leases office equipment under operating leases with lease terms of less than one year.

Capital Leases - The Fund leases computer equipment under lease agreements that expire through 2004.

The future minimum lease payments as of December 31, 2000, are as follows (in thousands):

	Operating Leases	Capital Leases
2001	\$ 832	\$ 1,843
2002	850	1,842
2003	524	481
2004	<u>453</u>	<u>24</u>
Total	<u>\$ 2,659</u>	4,190
Less: Imputed interest		<u>(330)</u>
Present value of net minimum lease payments		<u>\$ 3,860</u>

Based on the allocation factor approved by the NCUA Board for 2000, NCUSIF will reimburse the Fund for approximately 50% of the future lease payments.

6. RETIREMENT PLAN

The employees of the Fund are participants in the Civil Service Retirement and Disability Fund, which includes the Federal Employees' Retirement System (FERS). Both plans are defined benefit retirement plans covering all of the employees of the Fund. FERS is comprised of a Social Security Benefits Plan, a Basic Benefits Plan, and a Savings Plan. Contributions to the plans are based on a percentage of employees' gross pay. Under the Savings Plan, employees can also elect additional contributions between 1% and 10% of their gross pay, and the Fund will match up to 5% of the employees' gross pay. In 2000 and 1999, the Fund's contributions to the plans were approximately \$9,460,000 and \$8,304,000, respectively, of which approximately \$4,730,000 and \$4,152,000 were reimbursed by NCUSIF, respectively.

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.

7. DISCLOSURES OF FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	<u>December 31, 2000</u>		<u>December 31, 1999</u>	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 9,923	\$ 9,923	\$ 12,695	\$ 12,695
Due from NCUSIF	938	938	1,618	1,618
Employee advances	663	663	816	816
Other accounts receivable	153	153	258	258
Accounts payable	3,621	3,621	4,093	4,093
Obligation under capital lease	3,860	3,860	16	16
Notes payable to NCUSIF	31,748	31,748	33,161	33,161

8. CONTINGENCIES

Field of Membership Litigation - On December 17, 1998, NCUA's Board issued a final rule implementing the Credit Union Membership Access Act (CUMAA), which had amended the Federal Credit Union (FCU) Act. On January 18, 1999, a lawsuit was filed by the American Bankers Association (ABA), ABA v. NCUA, which challenged this rule on the premise that the rule violates the FCU Act, as modified by the CUMAA. On March 10, 1999, the ABA's request for a preliminary injunction was denied. On April 1, 1999, the ABA filed its First Amended Complaint. NCUA filed a partial motion to dismiss on April 15, 1999. On March 30, 2000, the Court issued an opinion granting NCUA's Motion to Dismiss as to all counts except one of the ABA's amended complaint. That count has now been dismissed and a Notice of Appeal has been filed with the Court of Appeals. A briefing schedule has been issued. In the opinion of management, the ultimate resolution of this matter will not be material to NCUA's financial position.

Office of Personnel Management Action - The U. S. Office of Personnel Management (OPM) referred to the Office of Special Counsel (OSC) its findings contained in a report entitled "Report of a Delegated Examining Oversight Review, National Credit Union Administration," dated June 16-20, 1997 (the OPM Report). The OSC completed its investigation in 1999 and forwarded its findings to the NCUA Board. On February 2, 2000, the NCUA Board proposed personnel actions against certain employees. These actions were taken and the employees appealed to the Merit Systems Protection Board (MSPB). NCUA's actions were upheld by the MSPB, and two of the employees have appealed those decisions. In the opinion of management, the ultimate resolution of this matter will not be material to NCUA's financial position.

In one personnel action, NCUA reached a settlement in 2000, whereby it reimbursed certain legal fees and paid certain retirement benefits to a former employee. The estimated amount of the settlement, \$361,000, was recorded as of December 31, 1999.

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

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NATIONAL CREDIT UNION SHARE INSURANCE FUND

**Financial Statements for the Years Ended
December 31, 2000 and 1999, and
Independent Auditors' Reports**

INDEPENDENT AUDITORS' REPORT

To the Inspector General of the
National Credit Union Administration:

We have audited the accompanying balance sheets of the National Credit Union Share Insurance Fund as of December 31, 2000 and 1999, and the related statements of operations, fund balance and cash flows for the years then ended. These financial statements are the responsibility of the National Credit Union Share Insurance 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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, 2000 and 1999, 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.

As discussed in Note 5 to the financial statements, the provisions of the Credit Union Membership Access Act of 1998 have affected the calculation and timing of dividends from the Fund effective January 1, 2000.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 16, 2001, on our tests of the National Credit Union Share Insurance Fund's compliance with certain provisions of laws, regulations, contracts, and grants, and our consideration of its internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

February 16, 2001

NATIONAL CREDIT UNION SHARE INSURANCE FUND

BALANCE SHEETS

DECEMBER 31, 2000 AND 1999

(Dollars in Thousands)

ASSETS	2000	1999
Investments (Note 6)	\$3,482,730	\$2,487,361
Cash and cash equivalents	1,098,005	1,679,975
Accrued interest receivable	69,261	38,814
Assets acquired in assistance to insured credit unions	9,074	9,943
Capital notes advanced to insured credit unions	146	325
Notes receivable - National Credit Union Administration Operating Fund (Note 8)	31,748	33,161
Other notes receivable	112	1,920
Fixed assets - net of accumulated depreciation and amortization (Note 3)	1,796	-
TOTAL ASSETS	<u>\$4,692,872</u>	<u>\$4,251,499</u>
 LIABILITIES AND FUND BALANCE		
LIABILITIES:		
Estimated losses from supervised credit unions (Note 4)	\$ 54,800	\$ 69,845
Estimated losses from asset and merger guarantees (Note 4)	959	875
Amounts due to insured shareholders of liquidated credit unions	7,094	8,934
Due to National Credit Union Administration Operating Fund (Note 8)	938	1,618
Accounts payable	7	49
Obligations under capital leases (Note 9)	<u>1,374</u>	<u>-</u>
Total liabilities	65,172	81,321
 COMMITMENTS AND CONTINGENCIES (Notes 4, 8, 9, and 12)		
FUND BALANCE:		
Insured credit unions' accumulated contributions	3,468,932	3,215,634
Insurance fund balance	<u>1,158,768</u>	<u>954,544</u>
Total fund balance	<u>4,627,700</u>	<u>4,170,178</u>
TOTAL LIABILITIES AND FUND BALANCE	\$4,692,872	\$4,251,499

See notes to financial statements.

NATIONAL CREDIT UNION SHARE INSURANCE FUND

STATEMENTS OF OPERATIONS YEARS ENDED DECEMBER 31, 2000 AND 1999 (Dollars in Thousands)

	2000	1999
REVENUES:		
Interest	\$ 268,169	\$ 227,281
Other	<u>1,952</u>	<u>1,850</u>
Total revenues	<u>270,121</u>	<u>229,131</u>
EXPENSES (Note 8):		
Administrative expenses (Note 8):		
Employee wages and benefits	47,054	42,673
Travel	6,950	5,402
Rent, communications, and utilities	1,671	1,839
Contracted services	2,744	2,097
Other	<u>7,478</u>	<u>6,381</u>
Total expenses	<u>65,897</u>	<u>58,392</u>
EXCESS OF REVENUES OVER EXPENSES	<u>\$ 204,224</u>	<u>\$ 170,739</u>

See notes to financial statements.

NATIONAL CREDIT UNION SHARE INSURANCE FUND

STATEMENTS OF FUND BALANCE YEARS ENDED DECEMBER 31, 2000 AND 1999 (Dollars in Thousands)

	Insured Credit Unions' Accumulated Contributions	Insurance Fund Balance
BALANCE AT JANUARY 1, 1999	\$2,938,503	\$ 872,174
Contributions from insured credit unions	277,131	-
Excess of revenues over expenses	-	170,739
Dividends to insured credit unions	<u>-</u>	<u>(88,369)</u>
BALANCE AT DECEMBER 31, 1999	3,215,634	954,544
Contributions from insured credit unions	253,298	-
Excess of revenues over expenses	-	204,224
BALANCE AT DECEMBER 31, 2000	\$3,468,932	\$1,158,768

See notes to financial statements.

NATIONAL CREDIT UNION SHARE INSURANCE FUND

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2000 AND 1999 (Dollars in Thousands)

	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of revenues over expenses	\$ 204,224	\$ 170,739
Adjustments to reconcile excess of revenues over expenses to cash provided by operating activities:		
Depreciation and amortization	507	-
Reserves (recoveries) relating to losses from supervised credit unions and assets and merger guarantees - net	(14,961)	(7,948)
(Increase) decrease in assets:		
Accrued interest receivable	(30,447)	1,257
Assets acquired from credit unions, net	869	4,310
Capital notes advanced to credit unions - net	179	1,141
Other notes receivable	1,808	(973)
(Decrease) increase in liabilities:		
Amounts due to National Credit Union Administration Operating Fund	(680)	(511)
Amounts due to insured shareholders of liquidated credit unions	(1,840)	1,322
Accounts payable	(42)	(505)
Net cash provided by operating activities	<u>159,617</u>	<u>168,832</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments, net	(995,369)	339,738
Collections on note receivable - National Credit Union Administration Operating Fund	1,413	1,413
Purchase of fixed assets	(522)	-
Net cash (used in) provided by investing activities	(994,478)	341,151
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions from insured credit unions	253,298	277,131
Dividends to insured credit unions	-	(88,369)
Principal payments under capital lease obligation	(407)	-
Net cash provided by financing activities	<u>252,891</u>	<u>188,762</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(581,970)	698,745
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,679,975	981,230
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,098,005	\$ 1,679,975

SUPPLEMENTAL DISCLOSURES OF NONCASH FINANCING ACTIVITIES:

A capital lease obligation of \$1,781 was incurred when the Fund entered into a lease for new equipment.

See notes to financial statements.

NATIONAL CREDIT UNION SHARE INSURANCE FUND

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2000 AND 1999

1. ORGANIZATION AND PURPOSE

The National Credit Union Share Insurance Fund (the Fund) 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 as discussed in Note 4. The Fund was established as a revolving fund in the United States Treasury under the management of the National Credit Union Administration (NCUA) Board for the purpose of insuring member share deposits in all federal credit unions and in qualifying state credit unions that request insurance. The maximum amount of insurance is \$100,000 per shareholder account.

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

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

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

Mergers of financially troubled credit unions with stronger credit unions may also require Fund assistance. Merger assistance may be in the form of cash assistance, purchase of certain assets by the Fund, and/or guarantees of the values of certain assets (primarily loans).

When a credit union is no longer able to continue operating and the merger and assistance alternatives are not practical, the Fund will liquidate the credit union, dispose of its assets, and pay members' shares up to the maximum insured amount. The values of certain assets sold (primarily loans) are sometimes guaranteed to third-party purchasers by the Fund.

2. SIGNIFICANT ACCOUNTING POLICIES

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

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

Advances to Insured Credit Unions - The Fund provides cash assistance in the form of interest and non-interest-bearing capital notes (carried at face value), share deposits, and loans to certain credit unions to assist them in continuing their operations.

Assets Acquired from 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, Texas, and are recorded by the Fund at their estimated net realizable value.

Premium Revenue - The Fund may assess each insured credit union a premium charge for insurance in an amount stated as a percentage of insured shares outstanding as of December 31 of the preceding insurance year if the Fund's equity ratio is less than 1.3 percent. The NCUA Board waived the 2000 and 1999 share insurance premiums (see Note 5).

Income Taxes - The Fund is exempt from Federal income taxes under §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:

- a. *Cash and Cash Equivalents* - The carrying amounts for cash and cash equivalents approximate fair values.
- b. *Investments* - The fair value for investments is the quoted market value.
- c. *Capital Notes and Other Notes Receivable* - It is not practicable to estimate the fair value of these assets as there is no secondary market, and the Fund has the ability and the intention to hold these notes to maturity.
- d. *Other* - Accrued interest receivable, notes receivable from NCUA Operating Fund, payable to NCUA Operating Fund, lease obligations, due to insured shareholders of liquidated credit unions 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 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. FIXED ASSETS

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

	<u>December 31.</u>	
	2000	1999
Furniture and equipment	\$ 522	\$ -
Capital leases	<u>1,781</u>	<u>-</u>
Total	2,303	-
Less: Accumulated depreciation and amortization	<u>507</u>	<u>-</u>
Total fixed assets - net	<u><u>\$ 1,796</u></u>	<u><u>\$ -</u></u>

4. PROVISION FOR INSURANCE LOSSES

Management identifies credit unions experiencing financial difficulty through the Fund'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. Nonspecified case reserve requirements are determined based upon an assessment of insured risk and historic loss experience. The anticipated losses are net of estimated recoveries from the disposition of the assets of failed credit unions.

Total insurance in force as of December 31, 2000, is \$355 billion, which includes natural person and corporate credit unions. The total net reserves for identified and anticipated losses from supervised credit unions' failures is \$56 million at December 31, 2000. Should there be no recoveries provided during the resolution process, possible additional reserves for \$27.3 million would be required.

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. Such guarantees totaled approximately \$2,362,000 and \$1,281,000 at December 31, 2000 and 1999, respectively. The estimated losses from asset and merger guarantees are determined by management on a case-by-case evaluation.

In addition, the Fund guarantees loans made by the NCUA's Central Liquidity Facility (CLF). Total line-of-credit guarantees of credit unions at December 31, 2000 and 1999, are approximately \$5,945,000 and \$6,085,000, respectively. The total balances outstanding under these line-of-credit guarantees at December 31, 2000 and 1999, are approximately \$1,674,000 and \$200,000, respectively.

The activity in the reserves for estimated losses from supervised credit unions and asset and merger guarantees was as follows (in thousands):

	Year Ended	
	December 31,	
	2000	1999
BEGINNING BALANCE	\$ 70,720	\$ 78,668
Insurance losses	(19,774)	(14,324)
Recoveries	<u>4,813</u>	<u>6,376</u>
ENDING BALANCE	<u>\$ 55,759</u>	<u>\$ 70,720</u>

5. FUND CAPITALIZATION

The Credit Union Membership Access Act of 1998 (CUMAA) mandated changes to the Fund's capitalization provisions effective January 1, 2000. Each insured credit union shall pay to and maintain with the Fund a deposit in an amount equaling 1% of the credit union's insured shares. The amount of each insured credit union's deposit shall be adjusted as follows, in accordance with procedures determined by the NCUA Board, to reflect changes in the credit union's insured shares: (i) annually, in the case of an insured credit union with total assets of not more than \$50,000,000; and (ii) semiannually, in the case of an insured credit union with total assets of \$50,000,000 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. Through 1999, under Title VIII of Public Law 98-369, each credit union's deposit was adjusted annually and was based on member share deposits outstanding as of December 31 of the preceding year. The 1% contribution will be returned to the insured credit union in the event that its insurance coverage is terminated, or is obtained from another source, or the operations of the Fund are transferred from the NCUA Board.

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

- (i) Any loans to the Fund from the Federal Government, and any interest on those loans, have been repaid;
- (ii) The Fund's equity ratio exceeds the normal operating level (as defined in the CUMAA, an equity ratio specified by the NCUA Board, which shall be not less than 1.2% and not more than 1.5%); and
- (iii) The Fund's available assets ratio, as defined in the CUMAA, exceeds 1.0%.

The NCUA Board has determined the normal operating level to be 1.33% as of December 31, 2000, which considers an estimated \$31.9 million in deposit adjustments to be billed to insured credit unions in 2001 based upon total insured shares as of December 31, 2000.

Through 1999, the law required that, upon receipt of the 1% contribution, the total fund balance must be maintained at a normal operating level as determined by the NCUA Board. The NCUA Board determined this level to be 1.30% of insured shares at December 31, 1999.

The NCUA Board declared and paid dividends of approximately \$88,370,000 during 1999. The CUMAA mandates the use of year-end reports of insured shares in the calculation of the specified ratios, and thus dividends related to 2000 will be declared and paid in 2001 based on insured shares as of December 31, 2000, as reported by the insured credit unions. Total insured shares at December 31, 2000 and 1999, were \$355 billion and \$337 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.

Investments consist of the following (in thousands):

December 31, 2000					
	Yield to Maturity at Market	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. TREASURY SECURITIES:					
Maturities up to one year	6.28 %	\$ 1,098,748	\$ 3,565	\$ -	\$ 1,102,313
Maturities after one year through five years	6.07 %	<u>2,383,982</u>	<u>36,393</u>	<u>-</u>	<u>2,420,375</u>
Total		<u>\$3,482,730</u>	<u>\$39,958</u>	<u>\$ -</u>	<u>\$3,522,688</u>
December 31, 1999					
	Yield to Maturity at Market	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. TREASURY SECURITIES:					
Maturities up to one year	5.98 %	\$ 998,667	\$ 489	\$ -	\$ 999,156
Maturities after one year through five years	6.42 %	<u>1,488,694</u>	<u>-</u>	<u>(16,882)</u>	<u>1,471,812</u>
Total		<u>\$2,487,361</u>	<u>\$ 489</u>	<u>\$(16,882)</u>	<u>\$2,470,968</u>

Total investment purchases during 2000 and 1999 were approximately \$1.9 billion and \$1.1 billion, respectively. Investment maturities during 2000 and 1999 were approximately \$0.9 billion and \$1.5 billion, respectively. The Fund has the capability and management has the intention to hold all investments held at December 31, 2000 and 1999, to maturity. There were no investment sales during 2000 and 1999.

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 CLF is authorized to make advances to the Fund under terms and conditions established by the NCUA Board. No borrowings were obtained from these sources during 2000 and 1999.

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 derived from a study of actual usage conducted by the management of these Funds. The allocation factor was 50% to the Fund and 50% to the NCUA Operating Fund for 2000 and 1999. On November 16, 2000, the NCUA Board voted to increase the allocation factor to the Fund for 2001 from 50% to 66.72%. The cost of services provided by the NCUA Operating Fund was approximately \$63,780,000 and \$57,319,000 for 2000 and 1999, respectively, and includes pension contributions of approximately \$4,730,000 and \$4,152,000 to the Civil Service Retirement System and Federal Employees Retirement System defined benefit retirement plans for 2000 and 1999, respectively.

In 1988, the Fund entered into a \$2,161,000 thirty-year unsecured term note with the NCUA Operating Fund. Interest received was approximately \$76,000 for 2000 and \$74,000 for 1999. The note receivable balance at December 31, 2000 and 1999, was approximately \$1,242,000 and \$1,314,000, 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 new building. Interest income was approximately \$1,857,000 and \$1,788,000 for 2000 and 1999, respectively. The note receivable balance at December 31, 2000, was approximately \$30,506,000.

The above notes mature as follows (in thousands):

	Unsecured Term Note	Secured Term Note	Total
2001	\$ 72	\$ 1,341	\$ 1,413
2002	72	1,341	1,413
2003	72	1,341	1,413
2004	72	1,341	1,413
2005	72	1,341	1,413
Thereafter	<u>882</u>	<u>23,801</u>	<u>24,683</u>
Total	<u>\$1,242</u>	<u>\$30,506</u>	<u>\$31,748</u>

The variable rate on both term notes is equal to the Fund's prior-month yield on investments. The average interest rate during 2000 and 1999 was approximately 5.95% and 5.52%, respectively. At December 31, 2000, the rate was 6.05%.

The NCUA Operating Fund leases certain office space and equipment under operating lease agreements that expire through 2004. Based on the allocation factor approved by the NCUA Board for 2000, the Fund will reimburse the NCUA Operating Fund for approximately 50% of the future lease payments.

The cost of services provided by the NCUA Operating Fund includes rental charges of approximately \$406,500 and \$444,000 for 2000 and 1999, respectively. The amounts were derived using the current annual allocation factor.

The NCUA Operating Fund's total future minimum lease payments as of December 31, 2000, are as follows (in thousands):

2001	\$ 832
2002	850
2003	524
2004	<u>453</u>
Total	<u>\$ 2,659</u>

9. LEASE COMMITMENTS

Description of Leasing Agreements - The Fund has entered into lease agreements with vendors for the lease of equipment that includes computers, laptops, and printers.

Capital Leases - The Fund leases computer equipment under lease agreements that expire through 2004.

The following is a schedule of future minimum lease payments as of December 31, 2000, are as follows (in thousands):

2001	\$ 659
2002	659
2003	<u>164</u>
Total	1,482
Less: Imputed interest	<u>(135)</u>
Present value of net minimum lease payments	<u>\$ 1,347</u>

10. DISCLOSURE OF FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	<u>December 31, 2000</u>		<u>December 31, 1999</u>	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Investments	\$3,482,730	\$3,522,688	\$2,487,361	\$2,470,968
Cash and cash equivalents	1,098,005	1,098,005	1,679,975	1,679,975
Accrued interest receivable	69,261	69,261	38,814	38,814
Notes receivable - NCUA				
Operating Fund	31,748	31,748	33,161	33,161
Amounts due to insured				
shareholders of liquidated				
credit unions	7,094	7,094	8,934	8,934
Due to NCUA Operating Fund	938	938	1,618	1,618
Accounts payable	7	7	49	49
Lease obligation	1,374	1,374	-	-

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

Field of Membership Litigation - On December 17, 1998, NCUA's Board issued a final rule implementing the Credit Union Membership Access Act (CUMAA), which had amended the Federal Credit Union (FCU) Act. On January 18, 1999, a lawsuit was filed by the American Bankers Association (ABA), ABA v. NCUA, which challenged this rule on the premise that the rule violates the FCU Act as modified by the CUMAA. On March 10, 1999, the ABA's request for a preliminary injunction was denied. On April 1, 1999, the ABA filed its First Amended Complaint. NCUA filed a partial motion to dismiss on April 15, 1999. On March 30, 2000, the Court issued an opinion granting NCUA's Motion to Dismiss as to all counts except one of the ABA's amended complaint. That count has now been dismissed and a Notice of Appeal has been filed with the Court of Appeals. A briefing schedule has been issued. In the opinion of management, the ultimate resolution of this matter will not be material to NCUA's financial position.

Office of Personnel Management Action - The U.S. Office of Personnel Management (OPM) referred to the Office of Special Counsel (OSC) its findings contained in a report entitled "Report of a Delegated Examining Oversight Review, National Credit Union Administration," dated June 16-20, 1997 (the OPM Report). The OSC completed its investigation in 1999 and forwarded its findings to the NCUA Board. On February 2, 2000, the NCUA Board proposed personnel actions against certain employees. These actions were taken and the employees appealed to the Merit Systems Protection Board (MSPB). NCUA's actions were upheld by the MSPB, and two of the employees have appealed those decisions. In the opinion of management, the ultimate resolution of this matter will not be material to NCUA's financial position.

In one personnel action, NCUA reached a settlement in 2000, whereby it reimbursed certain legal fees and paid certain retirement benefits to a former employee. The estimated amount of the settlement, \$361,000, was recorded as of December 31, 1999.

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

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NATIONAL CREDIT UNION ADMINISTRATION CENTRAL LIQUIDITY FACILITY

**Financial Statements for the Years Ended December 31,
2000 and 1999, and Independent Auditors' and
Accountants' Reports**

INDEPENDENT AUDITORS' REPORT

To the Inspector General of the
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, 2000 and 1999, 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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, 2000 and 1999, 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 16, 2001, on our examination of the National Credit Union Administration Central Liquidity Facility's assertions as to the effectiveness of its internal control over financial reporting, and our report dated February 16, 2001, on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. Those reports are integral parts of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

February 16, 2001

NATIONAL CREDIT UNION ADMINISTRATION CENTRAL LIQUIDITY FACILITY

BALANCE SHEETS DECEMBER 31, 2000 AND 1999 (Dollars in Thousands)

ASSETS	2000	1999
Cash (Note 11)	\$ 14	\$ 977,248
Investments with U.S. Central Credit Union (Notes 5, 8, 9, and 11)	919,509	909,884
Loans to members (Notes 4 and 11)	-	58,600
Accrued interest receivable (Note 11)	<u>12,968</u>	<u>16,436</u>
TOTAL ASSETS	<u><u>\$ 932,491</u></u>	<u><u>\$ 1,962,168</u></u>
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES:		
Federal Financing Bank notes payable (Notes 6 and 11)	\$ -	\$ 1,041,000
Member deposits (Notes 7 and 11)	28,807	28,020
Accounts payable and other liabilities (Note 11)	<u>107</u>	<u>731</u>
Total liabilities	<u>28,914</u>	<u>1,069,751</u>
MEMBERS' EQUITY:		
Capital stock - required (Note 7)	892,175	880,953
Retained earnings	<u>11,402</u>	<u>11,464</u>
Total members' equity	<u>903,577</u>	<u>892,417</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY	<u><u>\$ 932,491</u></u>	<u><u>\$ 1,962,168</u></u>

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION CENTRAL LIQUIDITY FACILITY

STATEMENTS OF OPERATIONS YEARS ENDED DECEMBER 31, 2000 AND 1999 (Dollars in Thousands)

	2000	1999
REVENUE - Investment income	<u>\$58,460</u>	<u>\$50,021</u>
EXPENSES (Note 10):		
Operating expenses:		
Group agent service fee	2	1
Personnel services	123	124
Other services	39	31
Rent, communications, and utilities	9	14
Personnel benefits	33	28
Supplies and materials	5	4
Employee travel	-	6
Printing and reproduction	<u>4</u>	<u>6</u>
Total operating expenses	215	214
Interest - Federal Financing Bank notes	1,743	5,862
Interest - member deposits	<u>676</u>	<u>699</u>
Total expenses	<u>2,634</u>	<u>6,775</u>
EXCESS OF REVENUE OVER EXPENSES	<u><u>\$55,826</u></u>	<u><u>\$43,246</u></u>

See notes to financial statements.

**NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY**

**STATEMENTS OF MEMBERS' EQUITY
YEARS ENDED DECEMBER 31, 2000 AND 1999
(Dollars in Thousands)**

	Capital Stock	Retained Earnings
BALANCE AT JANUARY 1, 1999	\$ 768,298	\$ 11,511
Issuance of required capital stock	113,124	-
Redemption of required capital stock	(469)	-
Dividends	-	(43,293)
Excess of revenue over expenses	<u> </u>	<u>43,246</u>
BALANCE AT DECEMBER 31, 1999	880,953	11,464
Issuance of required capital stock	16,657	-
Redemption of required capital stock	(5,435)	-
Dividends	-	(55,888)
Excess of revenue over expenses	<u> </u>	<u>55,826</u>
BALANCE AT DECEMBER 31, 2000	<u>\$ 892,175</u>	<u>\$ 11,402</u>

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION CENTRAL LIQUIDITY FACILITY

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2000 AND 1999 (Dollars in Thousands)

	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of revenue over expenses	\$ 55,826	\$ 43,246
Adjustments to reconcile excess of revenue over expenses to net cash provided by operating activities:		
Decrease (increase) in accrued interest receivable	3,468	(8,203)
(Decrease) increase in accounts payable and other liabilities	<u>(624)</u>	<u>672</u>
Net cash provided by operating activities	<u>58,670</u>	<u>35,715</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(9,625)	(112,479)
Loan principal repayment (disbursement)	<u>58,600</u>	<u>(58,600)</u>
Net cash provided by (used in) investing activities	<u>48,975</u>	<u>(171,079)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Additions to member deposits	3,426	4,620
Issuance of required capital stock	16,657	113,124
Dividends	(55,888)	(43,293)
Withdrawal of member deposits	(2,639)	(2,382)
Redemption of required capital stock	(5,435)	(469)
(Repayment) proceeds from issuing notes	<u>(1,041,000)</u>	<u>1,041,000</u>
Net cash (used in) provided by financing activities	<u>(1,084,879)</u>	<u>1,112,600</u>
NET (DECREASE) INCREASE IN CASH	(977,234)	977,236
CASH, BEGINNING OF YEAR	<u>977,248</u>	<u>12</u>
CASH, END OF YEAR	<u><u>\$ 14</u></u>	<u><u>\$ 977,248</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	<u>\$ 2,396</u>	<u>\$ 5,209</u>

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION CENTRAL LIQUIDITY FACILITY

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2000 AND 1999

1. ORGANIZATION AND PURPOSE

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

Allowance for Loan Losses - Loans to members are made on both a short-term and long-term basis. For all loans, the CLF either obtains a security interest in the assets of the borrower or in some cases receives the guarantee of the NCUA Share Insurance Fund.

The CLF evaluates the collectibility of its loans to members through examination of the financial condition of the individual borrowing credit unions and the credit union industry in general.

Investments - The CLF invests in redeposits and share accounts at U.S. Central Credit Union (see Notes 5 and 8). All other investments are short-term with no maturities in excess of one year. All investments are classified as held-to-maturity under Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Accordingly, the CLF records investments at amortized cost.

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

- a. *Cash* - The carrying amounts for cash approximate fair value.
- b. *Investments* - Securities held have maturities of one year or less and, as such, the carrying amounts approximate fair value.
- c. *Loans* - For loans advanced to member credit unions, the carrying amounts approximate fair value.
- d. *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.

- e. *FFB Notes Payable* - For notes issued to the Federal Financing Bank, the carrying amounts approximate fair value.
- f. *Other* - Accrued interest receivable and accounts payable and other liabilities are recorded at book values, which approximate the respective fair values.

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

3. GOVERNMENT REGULATIONS

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

At December 31, 2000 and 1999, the CLF was in compliance with its borrowing authority.

4. LOANS TO MEMBERS

There were no loans outstanding at December 31, 2000. The CLF can provide members with extended loan commitments. The balance of outstanding loans as of December 31, 1999, was \$58,600,000. Interest rates of these loans ranged from 5.239% to 5.4878% and their maturities extended through March 2000.

There were no outstanding loan commitments at either December 31, 2000 and 1999 (see Note 12).

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

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

	<u>December 31,</u>	
	<u>2000</u>	<u>1999</u>
U.S. Central Credit Union (see Note 8):		
Redeposit Account	\$ 849,810	\$ 836,014
Share accounts	<u>69,699</u>	<u>73,870</u>
	\$ 919,509	\$ 909,884

6. BORROWING AUTHORITY

The Secretary of the Treasury is authorized by the Act to lend up to \$500 million to the CLF in the event that the Board certifies to the Secretary that the CLF does not have sufficient funds to meet the liquidity needs of credit unions. This authority to lend is limited to such extent and in such amounts as are provided in advance by Congressional Appropriation Acts. On December 23, 1981, the President signed PL 97-101, which provided \$100 million of permanent indefinite borrowing authority that may be provided by the Secretary of the Treasury to the CLF to meet emergency liquidity needs of credit unions. On May 21, 1999, the President signed a midyear spending bill (HR 1141) that authorized the CLF to fully utilize its borrowing authority under the Federal Credit Union Act, or approximately \$20.7 billion. Borrowings would be from the Federal Financing Bank with interest generally payable upon maturity. See Note 12.

7. CAPITAL STOCK AND MEMBER DEPOSITS

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

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

8. U.S. CENTRAL CREDIT UNION MEMBERSHIP

During fiscal year 1984, the CLF accepted a membership request from U.S. Central Credit Union (USC) on behalf of 29 of its corporate credit union members. At December 31, 2000 and 1999, \$849,810,000 and \$836,014,000, respectively, of the required portion of subscribed capital stock was purchased from the CLF by USC on behalf of its member credit unions.

In addition, by accepting the USC membership request, the CLF was initially committed to reinvest all but \$50,000,000 of its total share capital in USC at market rates of interest. Beginning April 1, 1996, the CLF reinvests all of its agent member share capital in USC at market rates of interest. At December 31, 2000 and 1999, approximately \$919,509,000 and \$909,884,000, respectively, were invested in USC share accounts at 5.92% and 5.67%, respective yields.

9. CONCENTRATION OF CREDIT RISK

At December 31, 2000 and 1999, the CLF has a concentration of credit risk for its investments on deposit with USC of approximately \$919,509,000 and \$909,884,000 (see Notes 5 and 8).

10. SERVICES PROVIDED BY THE NATIONAL CREDIT UNION ADMINISTRATION

The National Credit Union Administration provides the CLF with data processing and other miscellaneous services and supplies. In addition, the National Credit Union Administration pays CLF's employees' salaries and benefits as well as the CLF's portion of monthly building operating costs. The CLF reimburses the National Credit Union Administration on a monthly basis for these items. Total reimbursements for the years ended December 31, 2000 and 1999, amounted to approximately \$213,000 for each year.

11. DISCLOSURE OF FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	December 31, 2000		December 31, 1999	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash	\$ 14	\$ 14	\$ 977,248	\$ 977,248
Investments	919,509	919,509	909,884	909,884
Loans to members	-	-	58,600	58,600
Accrued interest receivable	12,968	12,968	16,436	16,436
FFB notes payable	-	-	1,041,000	1,041,000
Member deposits	28,807	28,807	28,020	28,020
Accounts payable and other liabilities	107	107	731	731

12. SHORT-TERM REVOLVING CREDIT FACILITY

On July 15, 1999, the National Credit Union Administration signed a note purchase agreement with the Federal Financing Bank (FFB) on behalf of the CLF. The agreement provided for a commitment amount of \$20.7 billion and expired on September 30, 2000. Under this agreement, the CLF could request advances from FFB on an anticipatory basis in order to meet possible extraordinary and unpredictable liquidity-need loan demands from member natural person credit unions resulting from the century date change conversion.

As of December 31, 1999, the CLF had outstanding advances aggregating \$1.041 billion, of which \$41 million had in turn been loaned to member credit unions, maturing in March 2000. The remaining \$1 billion was repaid to FFB during January 2000. Interest rates on the outstanding advances ranged from 5.23% to 5.597% as of December 31, 1999.

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

**Financial Statements for the Years Ended
December 31, 2000 and 1999, and Independent
Auditors' Reports**

INDEPENDENT AUDITORS' REPORT

To the Inspector General of the
National Credit Union Administration:

We have audited the accompanying balance sheets of the National Credit Union Administration Community Development Revolving Loan Fund (CDRLF) as of December 31, 2000 and 1999, and the related statements of operations, changes in fund balance, and cash flows for the years then ended. These financial statements are the responsibility of the CDRLF's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the National Credit Union Administration Community Development Revolving Loan Fund as of December 31, 2000 and 1999, 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 16, 2001, on our consideration of the National Credit Union Administration Community Development Revolving Loan Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

February 16, 2001

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

**BALANCE SHEETS
DECEMBER 31, 2000 AND 1999**

ASSETS	2000	1999
Cash and cash equivalents (Note 2)	\$ 1,208,609	\$ 4,320,218
Loans - net of allowance (Note 4)	10,431,985	7,344,047
Interest receivable	<u>83,000</u>	<u>52,815</u>
TOTAL ASSETS	<u>\$11,723,594</u>	<u>\$11,717,080</u>
 LIABILITIES AND FUND BALANCE		
LIABILITIES:		
Accrued technical assistance	<u>\$ 104,371</u>	<u>\$ 116,097</u>
Total liabilities	<u>104,371</u>	<u>116,097</u>
 FUND BALANCE:		
Revolving fund capital (Note 3)	10,996,200	10,996,200
Accumulated earnings	<u>623,023</u>	<u>604,783</u>
Total fund balance	<u>11,619,223</u>	<u>11,600,983</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$11,723,594</u>	<u>\$11,717,080</u>

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

STATEMENTS OF OPERATIONS YEARS ENDED DECEMBER 31, 2000 AND 1999

	2000	1999
REVENUES:		
Interest on cash equivalents	\$ 82,274	\$ 118,571
Interest on loans	228,745	220,483
Provision for loan losses	<u>(21,911)</u>	<u>(11,204)</u>
Total	<u>289,108</u>	<u>327,850</u>
EXPENSES:		
Technical assistance	(270,868)	(305,546)
Total	<u>(270,868)</u>	<u>(305,546)</u>
EXCESS OF REVENUES OVER EXPENSES	<u>\$ 18,240</u>	<u>\$ 22,304</u>

See notes to financial statements.

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

**STATEMENTS OF CHANGES IN FUND BALANCE
YEARS ENDED DECEMBER 31, 2000 AND 1999**

	2000	1999
FUND BALANCE, BEGINNING OF YEAR	\$11,600,983	\$10,582,479
Appropriation - revolving fund capital (Note 3)	-	996,200
Excess of revenues over expenses	<u>18,240</u>	<u>22,304</u>
FUND BALANCE, END OF YEAR	<u>\$11,619,223</u>	<u>\$11,600,983</u>

See notes to financial statements.

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

**STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2000 AND 1999**

	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of revenues over expenses	\$ 18,240	\$ 22,304
Adjustments to reconcile the excess of revenues over expenses to net cash used in operating activities:		
Provision for loan losses	21,911	11,203
(Increase) decrease in interest receivable	(30,185)	9,616
Decrease in accrued technical assistance	<u>(11,726)</u>	<u>(74,463)</u>
Net cash used in operating activities	<u>(1,760)</u>	<u>(31,340)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Loan principal repayments	2,178,151	2,186,727
Loan disbursements	<u>(5,288,000)</u>	<u>(1,875,000)</u>
Net cash (used in) provided by investing activities	<u>(3,109,849)</u>	<u>311,727</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Appropriation - revolving fund capital	<u>-</u>	<u>996,200</u>
Net cash provided by financing activities	<u>-</u>	<u>996,200</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(3,111,609)	1,276,587
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>4,320,218</u>	<u>3,043,631</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,208,609</u>	<u>\$ 4,320,218</u>

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2000 AND 1999

1. NATURE OF ORGANIZATION

The Community Development Revolving Loan Fund for Credit Unions (CDRLF) was established by an act of Congress (Public Law 96-124, November 20, 1979) to stimulate economic development in low-income communities. The National Credit Union Administration (NCUA) and the Community Services Association (CSA) jointly adopted Part 705 of NCUA Rules and Regulations, governing administration of the Fund, on February 28, 1980.

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

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

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

2. SIGNIFICANT ACCOUNTING AND OPERATIONAL POLICIES

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

Cash Equivalents - The Federal Credit Union Act permits the CDRLF to make investments in United States Government Treasury securities. All investments in 2000 and 1999 were cash equivalents and are stated at cost which approximates market. Cash equivalents are highly liquid investments with original maturities of three months or less.

Allowance for Loan Losses - The CDRLF records a provision for estimated loan losses. Loans considered to be uncollectible are charged to the allowance for loan losses. Management continually evaluates the adequacy of the allowance for loan losses based upon prevailing circumstances and an assessment of collectibility risk of the total loan portfolio. Accrual of interest is discontinued on non-performing loans when management believes collectibility is doubtful. At December 31, 2000 and 1999, 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 allocated to the CDRLF. Consequently, the results of operations would be significantly different if the CDRLF were required to pay these expenses.

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

The CDRLF is subject to various Federal laws and regulations. Lending is limited by Congress to a total of the \$10,996,200 appropriated for the CDRLF plus accumulated earnings. Included in this \$10,996,200 is \$2,000,000 that was made available to the CDRLF during 1998 in accordance with Public Law 105-276, and an additional \$996,200 that was made available to the CDRLF during 1999 in accordance with Public Law 106-74. Federally chartered and state-chartered credit unions may participate in the CDRLF's community loan Fund. Loans may be made to predominantly low-income credit unions as defined by the NCUA and are recorded in the participant's accounting records as nonmember deposits. As nonmember deposits, the NCUA Share Insurance Fund (NCUSIF) may insure these loans to participating credit unions in an amount not to exceed \$100,000 per credit union. The covered amount of loans recorded as nonmember deposits by participating credit unions insured by the NCUSIF totaled approximately \$6,227,000 and \$4,998,000 at December 31, 2000 and 1999, respectively.

Loans are limited to a maximum amount of \$300,000 per credit union. Loans issued between January 1, 1995, and December 31, 1998, carry a fixed interest rate of 3%; and loans issued after January 1, 1999, carry a fixed rate of 2%. 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.

4. LOANS

Loans outstanding at December 31, 2000, are scheduled to be repaid as follows:

2001	\$ 3,055,804
2002	2,605,900
2003	2,125,100
2004	1,492,100
2005	1,353,800
	10,632,704
Less: Allowance for loan losses	(200,719)
Net loans outstanding	\$10,431,985

Changes in the allowance for loan losses are summarized below:

	2000	1999
Balance, beginning of year	\$ 178,808	\$ 167,604
Provision for loan losses	<u>21,911</u>	<u>11,204</u>
Balance, end of year	\$ 200,719	\$ 178,808

5. CONCENTRATION OF CREDIT RISK

At December 31, 2000 and 1999, there are no significant concentrations of credit risk in the loan portfolio. As discussed in Note 1, the CDRLF provides loans to credit unions that serve predominantly low-income communities.

6. ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

Interest Receivable and Accrued Technical Assistance - 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 (11.5% at December 31, 2000 and 10.5% at December 31, 1999).

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

	December 31, 2000		December 31, 1999	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:				
Cash and cash equivalents	<u>\$ 1,208,609</u>	<u>\$ 1,208,609</u>	<u>\$ 4,320,218</u>	<u>\$ 4,320,218</u>
Interest receivable	<u>\$ 83,000</u>	<u>\$ 83,000</u>	<u>\$ 52,815</u>	<u>\$ 52,815</u>
Loans	\$ 10,632,704	\$ 8,596,456	\$ 7,522,855	\$ 6,324,112
Allowance for loan losses	<u>(200,719)</u>	<u>(200,719)</u>	<u>(178,808)</u>	<u>(178,808)</u>
Loans, net of allowance	<u>\$ 10,431,985</u>	<u>\$ 8,395,737</u>	<u>\$ 7,344,047</u>	<u>\$ 6,145,304</u>
Liabilities:				
Accrued technical assistance	\$ 104,371	\$ 104,371	\$ 116,097	\$ 116,097

It is the intent of the CDRLF to hold its loans to maturity. The CDRLF anticipates realizing the carrying amount in full.

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