1999
Financial Report

OFFICE OF THRIFT SUPERVISION
1989

Office of Thrift Supervision

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Profile of the Office of Thrift Supervision

OTS was established as a bureau of the Department of the Treasury on August 9, 1989, by the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA). OTS is headed by a Director who is appointed by the President, with Senate confirmation, for a 5-year term. The Director also serves on the boards of the Federal Deposit Insurance Corporation and the Neighborhood Reinvestment Corporation.

Statutory Authority - OTS's primary statutory authority is the Home Owners' Loan Act (HOLA). Under HOLA, OTS is responsible for chartering, examining, supervising, and regulating federal savings associations and federal savings banks. HOLA also authorizes OTS to examine, supervise, and regulate state-chartered savings associations belonging to the Savings Association Insurance Fund (SAIF) and provide for the registration, examination, and regulation of savings association affiliates and holding companies.

Organization - To carry out its mission, OTS is organized as follows:

◊ The Director, with the assistance of the Deputy Director, determines policy for OTS and makes final decisions on regulations, policies and administrative adjudications governing the thrift industry and on many measures affecting individual institutions.

◊ The Office of Supervision (OS) oversees the Supervision Policy, Accounting Policy, and Examination and Supervision program areas. The responsibilities of the office include: gathering, analyzing and reporting on information and issues relating to the regulation of the industry; managing the applications process; examination consistency; development of examination and supervisory policy; accounting policies and procedures; and examination appeals.*

◊ The Office of Compliance Policy and Specialty Examinations (OCP&SE) includes Community Affairs, Compliance Policy, Consumer Affairs, and Technology Risk Management. OCP&SE establishes the policies and procedures by which OTS examines for thrift compliance with consumer protection and fair lending laws, evaluates an association's CRA performance, and oversees an institution's use of information technology. It responds to consumer and discrimination complaints against savings associations and manages the Community Affairs program, which helps thrifts improve their service to under-served markets and individuals.

*The policies of both OS and OCP&SE are implemented through OTS's five regions, each headed by a Regional Director reporting directly to the Deputy Director of OTS.

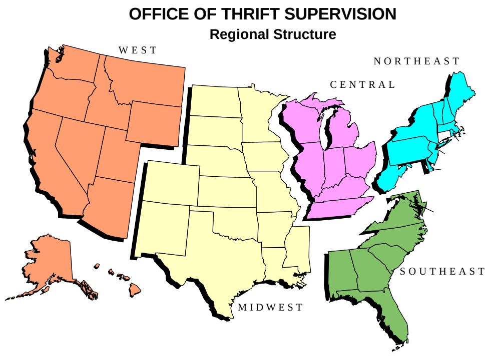
◊ The Office of Information Systems develops OTS's corporate and business databases and maintains its information resources. It operates the nationwide telecommunication network and computer systems; develops systems applications which support OTS's business processes, and is responsible for the privacy and security of OTS's electronic data. OIS is also responsible for the requirements of the Freedom of Information Act (FOIA), and the Paperwork Reduction Act.

◊ The Office of Administration directs policy development for administrative operations including contracting and procurement, facilities management and labor relations, training, human resources, and financial management.

◊ The Office of Chief Counsel provides a full range of legal services to the Director, OTS and other agency staff . The Office provides legal advice and opinions on regulatory and administrative matters, drafts regulations, advises on transactional matters, represents OTS in court, and prosecutes enforcement actions related to thrift institutions and institution-affiliated parties.

◊ The Office of External Affairs communicates information concerning OTS regulations, policies and key developments within the agency to the thrift industry, the public, the press, government agencies and other key constituencies. External Affairs also maintains a liaison between OTS and Congress and coordinates all Congressional testimony.

◊ The Office of Research and Analysis collects and analyzes thrift industry and general economic data. It tracks and reports on the financial condition of the thrift industry, assesses savings associations' interest rate risk exposure, provides quarterly reports to most thrift institutions describing their exposure, and conducts research related to the thrift industry and housing markets.



OTS Mission - The mission of OTS is to effectively and efficiently supervise thrift institutions to maintain their safety and soundness in a manner that encourages a competitive industry to meet America's housing, community credit and financial service needs and to provide access to financial services for all Americans.

Strategic Plan: OTS's Strategic Plan contains our mission statement and strategic goals. It summarizes the resources needed to achieve strategic goals and describes key external factors that could effect the achievement of strategic goals.

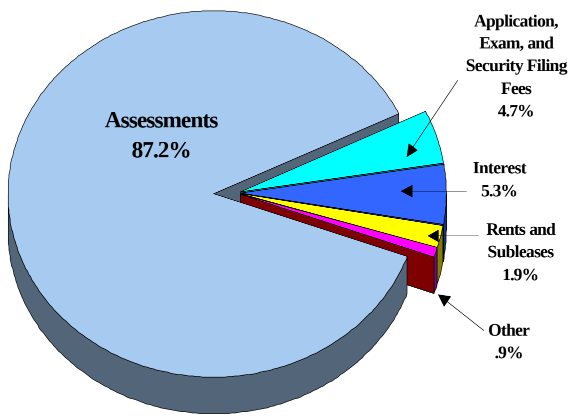
OTS's Strategic Goals - OTS has identified the four strategic goals listed below:

- Through efficient and effective supervision, maintain a safe and sound industry that meets its responsibilities to its customers and communities.
- Actively support the thrift industry's efforts to expand the full range of housing, other credit, and financial services to all segments of the community through outreach programs, industry partnerships, and proactive supervision.
- Utilize in the most complete and efficient way the talents, knowledge and enthusiasm of the Agency to keep regulatory operations at the minimum level consistent with effective supervision.
- Provide exceptional service to all major groups with which we interact, including the thrift institutions regulated by OTS and members of the public that deal with those thrift institutions, to make government more responsive.

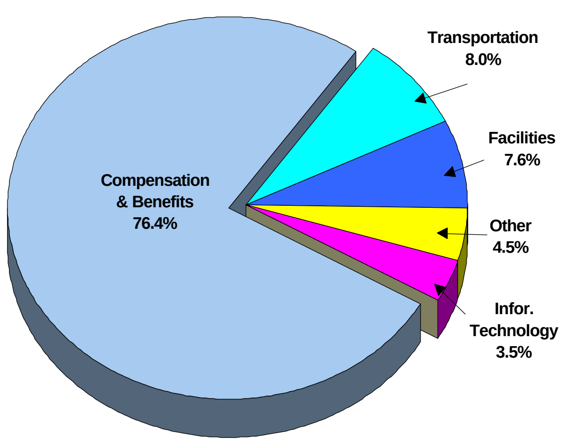
Performance Plan: The Strategic Plan provides the framework for the annual Performance Plan. OTS's annual Performance Plan sets forth specific performance goals and performance measures, and contains annual performance measure targets. Both OTS's Strategic Plan and Performance Plan can be found on the OTS web site.

Management's Discussion and Analysis of OTS's Financial Performance

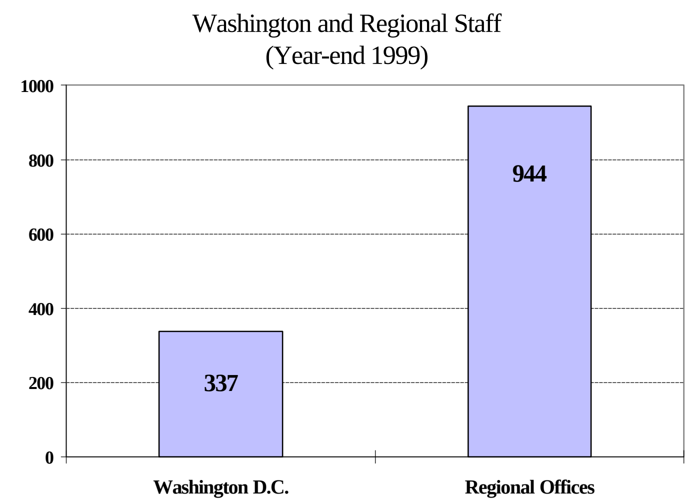
Funding Sources - OTS receives no appropriated funds from Congress. FIRREA provided OTS with the authority to fund its operations through periodic assessments charged to the thrift industry. Assessments constitute the largest single component (87.2%) of the total OTS income. OTS also receives funds from application fees, interest, rents and subleases, exam fees, and other miscellaneous sources.



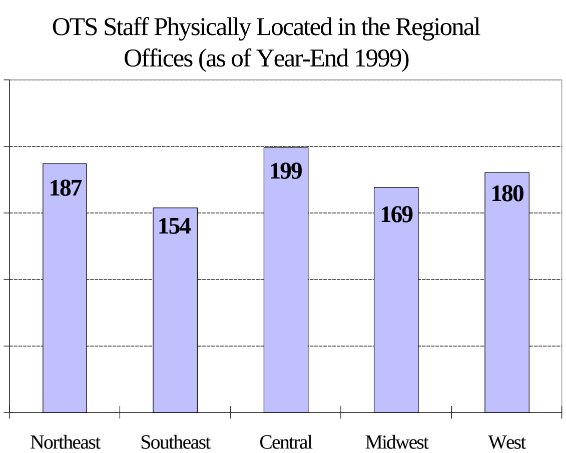
Funding Uses - The pie chart below shows OTS's 1999 operating expenses by major cost categories. Expenses for personnel compensation and benefits continue to be OTS's largest component of annual cost.



OTS Staff: OTS fulfills its mission through its staff. OTS requires a highly skilled and trained staff due to the complexity of its supervisory role for the thrift industry. In order to responsively supervise thrifts, OTS staff must evaluate thrift business characteristics such as risk management and capital adequacy, as well as identify when risk becomes unacceptable and take immediate corrective measures to mitigate problems. The chart below shows the breakdown of OTS's staff between the Washington and Regional offices.



The chart below shows the breakdown of OTS's regional staff physically located in the five regional offices (some Regional staff members are physically located in Washington).



Financial Presentation - OTS complies with all applicable generally accepted accounting principles (GAAP), Federal Financial Accounting Standards and internal control principles. OTS's financial transactions are reported on an accrual basis. The Planning, Budget and Finance Division continually reviews new Statements of Federal Financial Accounting Standards and modifies accounting policy, procedures, and reporting, as needed.

Internal Controls - The Federal Managers' Financial Integrity Act (FMFIA) mandated the establishment of agency internal control programs and regular evaluations of management controls and accounting systems to protect federal programs from fraud, waste and abuse. OTS maintains strong internal controls, comprehensive financial management controls, personnel security controls, computer security, and strong asset accountability programs. OTS maintains budgetary integrity through the continual oversight and monitoring of its annual budget. Generated reports allow the budget staff to regularly analyze the status of all accounts, review all expenditures, and make recommendations to senior management regarding potential savings and/or possible overages in the various accounts.

The foundation of OTS's financial management control program is its annual financial statement audit. The 1999 audit was conducted by the independent, certified public accounting firm of Deva & Associates, P.C. The audit was completed on March 24, 2000. For the tenth consecutive year, OTS was given an unqualified opinion on its financial statements.

OTS's Annual Assurance Statement for the fiscal year ending September 30, 1999, as required by FMFIA, indicated that OTS's management control systems are adequate and ensure that programs achieve their intended results; resources are used consistent with the OTS mission; programs and resources are protected from waste, fraud, and mismanagement; laws and regulations are followed; and reliable and timely information is obtained and used for decision making.

In addition, none of the quality assurance and other reviews, audits, management studies, or program and annual evaluations conducted during FY 1999 identified any Section 2 (programs and administrative functions) significant or "material" weaknesses, or Section 4 (financial systems) material nonconformances.

Current Status of OTS's Financial Management Systems
OTS uses an off-the-shelf accounting system purchased from Computer Data Systems, Inc., as the key component of its financial management system. The accounting system operates on a calendar-year basis and integrates the procurement, budget execution, accounts payable, accounts receivable, general ledger, and financial reporting functions and is directly interfaced with the payroll/personnel system.

OTS's financial management systems currently produce accurate, relevant and timely information and meet the requirements of the Federal Financial Management Improvement Act (FFMIA). A review of these systems as part of the Inspector General's annual audit requirement has produced an unqualified audit for the past ten years. The system utilizes an automated Standard General Ledger (SGL) crosswalk which allows OTS to meet federal reporting standards while permitting OTS's internal management to continue receiving a more detailed breakout of accounting information. Financial reports are provided to senior management on a monthly basis to assist them in monitoring their program area.

Deva & Associates, P.C.

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INDEPENDENT AUDITORS' REPORT

To the Inspector General,
U.S. Department of the Treasury

We have audited the accompanying statements of financial position of the U.S. Department of the Treasury, Office of Thrift Supervision (OTS) as of December 31, 1999 and 1998, and the related statements of operations and changes in net position, and cash flows for the years then ended. These financial statements are the responsibility of OTS's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards; and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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, the financial statements referred to above present fairly, in all material respects, the financial position of OTS as of December 31, 1999 and 1998, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards,* we have also issued a report dated March 24, 2000 on our consideration of OTS's internal control and a report dated March 24, 2000 on its compliance with laws and regulations.

Our audits were conducted for the purpose of forming an opinion on the principal financial statements described above. We have inspected the financial information presented in the accompanying Management's Discussion and Analysis of OTS's Financial Performance. The information presented in the Management's Discussion and Analysis of OTS's Financial Performance is presented for the purposes of additional analysis. Such information has not been audited by us and, accordingly we do not express our opinion on this information.

Deva & Associates, P.C.

Certified Public Accountants

March 24, 2000

UNITED STATES DEPARTMENT OF THE TREASURY
OFFICE OF THRIFT SUPERVISION
STATEMENTS OF FINANCIAL POSITION
(In thousands)

	As of December 31 1999	1998
Assets		
Cash and cash equivalents (Note 3)	$ 18,707	$ 35,569
Accrued interest receivable	1,368	1,194
Accounts receivable	863	1,217
Investments held to maturity (Note 4)	108,703	95,340
Property and equipment, net (Note 5)	37,160	38,343
Other assets (Note 11)	1,887	4,991
Total Assets	$ 168,688	$ 176,654
Liabilities and Net Position		
Liabilities:		
Accounts payable	$ 1,093	$ 1,394
Accrued annual leave	8,972	8,011
Accrued workers' compensation (Note 6)	4,493	4,241
Deferred compensation liability (Note 11)	954	1,345
Deferred rent credit	2,478	2,836
Post-retirement benefit liability (Note 8)	8,240	7,200
Other accrued liabilities (Note 7)	9,571	8,744
Total Liabilities	$ 35,801	$ 33,771
Net Position:		
Assumed capital (Note 2)	$ 41,037	$ 41,037
Retained earnings	91,850	101,846
Total Net Position	$ 132,887	$ 142,883
Total Liabilities and Net Position	$ 168,688	$ 176,654

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

UNITED STATES DEPARTMENT OF THE TREASURY
OFFICE OF THRIFT SUPERVISION
STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION
Years Ended December 31
(In thousands)

	1999	1998
Revenues		
Industry assessments	$ 125,264	$ 126,553
Examination, application and security filing fees	6,710	5,505
Interest	7,687	8,409
Rental income (Note 9)	2,686	2,615
Other	1,366	564
Total Revenues	$ 143,713	$ 143,646
Expenses		
Personnel compensation	$ 90,667	$ 85,365
Benefits	26,748	23,083
Rent, communication and utilities	7,735	7,579
Travel and transportation	12,263	10,807
Services	4,804	4,085
Data processing	3,692	3,786
Building expenditures	3,889	4,152
Office equipment and software	1,704	2,517
Miscellaneous	943	1,187
Depreciation	1,264	1,253
Total Expenses	$ 153,709	$ 143,814
Excess of Expenses over Revenues	$ (9,996)	$ (168)
Net Position, Beginning Balance	142,883	143,051
Net Position, Ending Balance	$ 132,887	$ 142,883

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

UNITED STATES DEPARTMENT OF THE TREASURY
OFFICE OF THRIFT SUPERVISION
STATEMENTS OF CASH FLOWS
Years Ended December 31
(In thousands)

	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of Expenses over Revenues	$ (9,996)	$ (168)
Adjustments to reconcile excess of Expenses over Revenues to net cash provided by operating activities:		
Amortization of net bond discount (premium)	1,661	37
Depreciation	1,264	1,253
Loss on disposal of equipment	-	6
Changes in assets and liabilities:		
Decrease in accounts receivable	180	129
Decrease in other assets	3,104	2,978
Increase (decrease) in accounts payable	(300)	773
Increase in other liabilities	2,330	1,854
Net cash provided by (used in) operating activities	$ (1,757)	$ 6,862
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	$ (44,648)	$ (90,967)
Maturities of investments	29,624	94,893
Purchases of equipment	(81)	(975)
Net cash provided by (used in) investing activities	$ (15,105)	$ 2,951
Net cash provided by (used in) operating and investing activities	$ (16,862)	$ 9,813
Cash and cash equivalents, beginning of year	35,569	25,756
Cash and cash equivalents, end of year	$ 18,707	$ 35,569

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

UNITED STATES DEPARTMENT OF THE TREASURY
OFFICE OF THRIFT SUPERVISION

NOTES TO FINANCIAL STATEMENTS

1. REPORTING ENTITY

The Office of Thrift Supervision (OTS) was created when the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) abolished the Federal Home Loan Bank Board (FHLBB) and transferred all examination and supervisory activities to OTS under the Department of the Treasury. The primary functions of OTS are to: (1) charter federal savings and loan associations; (2) adopt regulations governing the operation of the thrift industry; (3) conduct examinations of federal and state chartered savings institutions and their holding companies; and (4) supervise compliance with federal laws and regulations and OTS directives, taking measures needed to enforce such compliance and rehabilitate troubled institutions.

FIRREA provides that OTS assess the institutions it regulates to recapture operating costs. Assessments are based on the OTS budget and are collected from savings and loans semiannually on January 31 and July 31.

2. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

OTS is operated substantially as a commercial enterprise and records its calendar year transactions on an accrual basis, in accordance with generally accepted accounting principles (GAAP).

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of OTS's account at the Department of the Treasury, various imprest funds and other accounts in Washington, DC and at regional offices, and funds invested overnight by Treasury on behalf of OTS.

INVESTMENTS HELD TO MATURITY

Effective January 1, 1994, OTS adopted Statement of Financial Accounting Standards No. 115, "Accounting for Investments in Certain Debt and Equity Securities". Under the statement, OTS is required to classify investment securities under three categories: (1) trading, (2) available for sale, and (3) held to maturity. All of the agency's investments consist of U.S. Treasury obligations. OTS has the intent and ability to hold these investments to maturity. Therefore, all investments are classified as held to maturity and are stated at amortized cost. Premiums and discounts are amortized over the term of the investments using the straight-line method, which approximates the interest method.

POST-RETIREMENT BENEFITS

OTS provides certain health and life benefits for all retired employees that meet eligibility requirements. Effective January 1, 1993, OTS adopted Financial Accounting Standards Board (FASB) Statement No. 106 to account for its share of the costs of those benefits. Under this statement, OTS's share of the estimated costs that will be paid after retirement is being accrued by charges to expense over the employees' active service periods to the dates that they are fully eligible for benefits, except that OTS has elected to amortize the transition amount (unfunded cost at January 1, 1993) over twenty (20) years beginning in 1993 in accordance with the option available in the statement. Prior to 1993, the Office of Thrift Supervision expensed its share of the costs as claims were incurred by the retirees and as premiums were paid by OTS.

Pursuant to an agreement with the Office of Personnel Management (OPM) in 1994, OTS agreed to pay a one-time fee to OPM in consideration of OPM assuming the health care portion of the post-retirement plan liability.

ANNUAL, SICK, AND OTHER LEAVE

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. The balance in the accrued annual leave account reflects current pay rates. Sick leave and other types of nonvested leave are charged to operating costs as taken.

PROPERTY AND EQUIPMENT

Fixed assets acquired by OTS are capitalized at cost based on the agency's existing capitalization policy. Fixed assets in excess of $50,000 have been capitalized since 1997. The building owned by OTS is being depreciated over 50 years. The agency's furniture, fixtures and equipment are depreciated over 5 years. Depreciation is computed on a straight-line basis.

ASSUMED CAPITAL

The land and building owned by FHLBB were transferred to OTS under FIRREA. OTS also assumed all furniture, fixtures and equipment previously owned by FHLBB. These assets were recorded at their existing book values established in FHLBB's accounting records. Their value is reported as Assumed Capital in the net position section of the comparative Statements of Financial Position.

INCOME TAXES

As an agency of the U.S. Department of the Treasury, OTS is exempt from all federal and state taxes based on income. The Office of Thrift Supervision is also exempt from state and local property and real estate taxes.

RECLASSIFICATIONS

On the 1998 comparative Statements of Financial Position, OTS classified its assets and liabilities as federal and nonfederal as required by the U.S. Department of Treasury. This classification requirement was discontinued for the 1999 financial statements. The 1998 comparative Statements of Operations and Changes in Net Position included $4,499,727 in revenues under imputed financing and an equal amount of benefits expenses as required by the U.S. Department of Treasury. Imputed financing represents expenses paid by other entities, primarily the Office of Personnel Management. These offsetting items have been removed from the 1999 presentation because the requirement was discontinued. Current classification and presentation are closer in conformity to generally accepted accounting practices of commercial enterprises rather than governmental agencies. Certain other 1998 amounts have been reclassified to conform to the 1999 presentation.

3. CASH AND CASH EQUIVALENTS

The following table summarizes the balances of cash and cash equivalents (in thousands):

	December 31	
	1999	1998
Cash	$ 752	$ 378
Overnight investment with Treasury	17,955	35,191
Total cash and cash equivalents	$ 18,707	$ 35,569

Interest earned on overnight investments totaled $1,468,709 and $1,174,694 for 1999 and 1998, respectively.

4. INVESTMENTS HELD TO MATURITY

Investment securities held at December 31, 1999 and 1998 are marketable Treasury securities maturing through December 2003. The amortized cost and market value of these securities are summarized as follows (in thousands):

	December 31	
	1999	1998
Face value	$ 105,000	$ 94,624
Unamortized premium, net of unamortized discount	3,703	716
Book value of investments held to maturity	$ 108,703	$ 95,340
Market value	$ 106,386	$ 96,647

Effective interest rates range from 4.71% to 5.63%. Interest earned on these investments totaled $6,218,222 and $7,234,472 for 1999 and 1998, respectively.

5. PROPERTY AND EQUIPMENT (in thousands)

The following table summarizes the fixed asset balances:

	December 31	
	1999	1998
Land	$ 7,101	$ 7,101
Building	49,188	49,107
Furniture, fixtures, and equipment	5,147	5,453
Total cost	$ 61,436	$ 61,661
Accumulated depreciation, building	$ (19,438)	$ (18,387)
Accumulated depreciation, furniture, fixtures, and equipment	(4,838)	(4,931)
Total accumulated depreciation	$ (24,276)	$ (23,318)
Property and equipment, net	$ 37,160	$ 38,343

6. ACCRUED WORKERS' COMPENSATION

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for OTS employees under FECA are administered by the U.S. Department of Labor (DOL) and are ultimately paid by OTS. These future workers' compensation estimates were generated by DOL from an application of actuarial procedures developed to estimate the liability for FECA benefits. This DOL estimated actuarial liability for FECA benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability was determined using the paid losses extrapolation method calculated over the next

37-year period. This method utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. These annual benefit payments have been discounted to present value using OMB's economic assumptions for 10-year Treasury notes and bonds. Based on information provided by the DOL, the U.S. Department of the Treasury determined that the estimated liability of OTS as of December 31, 1999 and December 31, 1998 was $4,492,902 and $4,241,226, respectively. Changes in the actuarial liability related to FECA are reflected as reductions or increases in benefits expense in the appropriate year.

7. OTHER ACCRUED LIABILITIES (in thousands)

	December 31	
	1999	1998
Payroll and withholding	$ 4,127	$ 3,515
Relocations	523	424
Goods and services	4,873	4,757
Other	48	48
Total other accrued liabilities	$ 9,571	$ 8,744

8. POST-RETIREMENT BENEFIT LIABILITY

OTS sponsors a life insurance plan (the Plan) for all employees that meet eligibility requirements. The agency funds benefit costs principally on a pay-as-you-go basis, with retiree contributions that are adjusted annually based on factors, some of which are discretionary. The Plan is unfunded, with participants paying a portion of the costs. As stated in the Significant Accounting Policies, OTS changed its accounting policy with respect to the Plan as of January 1, 1993. OTS elected to defer recognition of the Plan's transition obligation, and amortize such obligation over twenty (20) years on a straight-line basis.

A Memorandum of Understanding (MOU) was signed in December 1994, between OPM and OTS. The purpose of the MOU was to implement legislation permitting annuitants who retired from OTS prior to January 1995, and who were enrolled in the OTS health plan, to enroll in the Federal Employees Health Benefits Program (FEHB) for coverage effective on or after January 8, 1995. OTS agreed to pay a one-time fee to OPM of approximately $10,993,000 in consideration of OPM assuming the health portion of the post-retirement plan liability. In accordance with FASB 106, the agreement with OPM constitutes a settlement and, accordingly, OTS recognized a gain on the settlement of approximately $16,694,000 in 1994. Such gain includes the health portion of the transition obligation that OTS elected to initially recognize over 20 years in 1993. The post-retirement liability of $8,240,354 in the comparative Statements of Financial Position at December 31, 1999, and $7,200,404 at December 31, 1998 represent OTS's recognized portion of the remaining liability for participants' future life benefits.

Net periodic post-retirement benefit cost for life insurance provisions under the Plan included the following components in 1999 and 1998 (in thousands):

	December 31	
	1999	1998
Service cost - current year	$ 264	$ 404
Interest on accumulated post-retirement benefit obligation	729	759
Amortization of transition obligation	298	298
Amortization of loss	-	17
Net post-retirement benefit expense	$ 1,291	$ 1,478

The following table sets forth the Plan's funded status reconciled with the liability recognized in the Statements of Financial Position (in thousands):

	December 31	
	1999	1998
Accumulated post-retirement benefit obligation:		
Retirees	$ 3,747	$ 3,973
Other fully eligible participants	5,142	5,049
Other active participants	2,104	2,311
Accumulated post-retirement benefit obligation	10,993	11,333
Unrecognized transition obligation	(3,877)	(4,174)
Unrecognized net gain	1,124	41
Total post-retirement benefit liability	$ 8,240	$ 7,200

The weighted average discount rates used in estimating the accumulated post-retirement benefit obligations at December 31, 1999 and December 31, 1998 were 7% and 6.5%, respectively.

9. RENTAL INCOME

OTS leases a portion of its building space to retailers under noncancellable operating leases expiring at various dates through 2009. Some of the leases provide renewal options. The leases provide for annual base rent, some of which are subject to contingency rents for increased building costs, annual increases based upon changes in the Consumer Price Index or a percentage of sales in excess of a specified amount. Other leases provide for fixed future increases in rents over the term of the lease. OTS also subleases some of its existing unused leased facilities under similar terms.

The future minimum rentals to be received under both types of noncancellable operating lease arrangements are as follows (in thousands):

Years ending December 31	Leases	Subleases	Total
2000	$ 2,237	$ 560	$ 2,797
2001	2,221	572	2,793
2002	2,262	572	2,834
2003	2,006	572	2,578
2004	314	587	901
Thereafter	1,150	245	1,395
	$ 10,190	$ 3,108	$ 13,298

Rental income totaled $2,686,026 and $2,615,419 for 1999 and 1998, respectively.

10. RETIREMENT PLANS

OTS employees participate in three retirement systems which are classified as multi-employer plans. Two are administered by OPM. For funding purposes, these two plans function as defined contribution plans; however, the retirement benefits accrue in a manner consistent with a defined benefit plan. The third is a private defined benefit plan administered by the Financial Institutions Retirement Fund (FIRF).

The Civil Service Retirement System (CSRS) is two-tiered. For employees hired prior to January 1, 1984, OTS withholds 7.5 percent of regular earnings. OTS contributed 8.51 percent of regular earnings in 1999 and 1998 for each employee in this tier. The sum is transferred to the Civil Service Retirement Fund, from which this employee group will receive retirement benefits. Employees do not contribute to, or receive benefits from, the Social Security System.

For employees with more than five years of (not necessarily continuous) service, hired on or after January 1, 1984, OTS withholds 1.05 percent of regular earnings, in addition to Social Security withholding. OTS also contributed 8.51 percent of regular earnings in 1999 and 1998 for each employee in this tier. At the point regular earnings exceed the FICA maximum wages ($72,600 for 1999), employees covered under this tier of CSRS are required to have 7.25 percent of their earnings withheld. This employee group will receive retirement benefits from both CSRS and the Social Security System.

Beginning in January 1987, all employees hired since January 1, 1984, either as new employees or having less than five years of accumulated service (with a break in service over one year) are included in the Federal Employee Retirement System (FERS). For these employees, OTS withheld 0.8 percent and 1.05 percent of regular earnings in 1999 and 1998, respectively. The agency contributed 10.7 percent of regular earnings in 1999 and 1998 for FERS employees. This group of employees will receive benefits from FERS as well as the Social Security System, to which they concurrently contribute.

Pursuant to FIRREA, the Office of Regulatory Activities and the twelve examination districts became part of OTS. As a result, OTS assumed the costs of their retirement system, which is part of FIRF. Under this private retirement system, OTS contributes a percentage of total FIRF salary. This percentage varies from year to year. Employees do not contribute to FIRF but do contribute to the Social Security System. Changes in percentages are based on the number of active FIRF OTS employees, the number of people that have retired, the benefits paid out, and adjustments to the actuarial gain or loss.

The Office of Thrift Supervision funds either all FIRF or a portion of CSRS and FERS pension benefits under any of the aforementioned retirement systems relating to its employees and makes the necessary payroll withholdings. However, OTS does not account for the assets of either retirement plan nor does it have actuarial data with respect to accumulated plan benefits or the unfunded pension liability relative to its employees. These amounts are reported by the Office of Personnel Management for both government retirement systems and are not allocated to the individual agencies.

In years prior to 1997, OTS was not required to fund the FIRF plan due to changes in retirement plan provisions of the Internal Revenue Code and cumulative net actuarial experience gains. OTS established a prepaid asset representing the Future Employer Contribution Offset, and adjusted its balance and the corresponding expense annually according to actuarial valuation reports prepared by the Plan Administrator. In 1997, OTS elected to eliminate this prepaid asset by amortizing the remaining balance over three (3) years ending in 1999. This change was due to the FIRF plan's status as a multi-employer plan and as such, the inherent uncertainty of the Office of Thrift Supervision's portion of the Future Employer Contribution Offset. The prepaid balance included in other assets in the comparative Statements of Financial Position is approximately $3,261,000 in 1998.

In addition to the retirement plans described above, OTS employees have the option of participating in retirement savings plans. Employees covered under CSRS or FERS may participate in the OPM-sponsored Thrift Savings Plan (TSP), a plan with characteristics similar to a private-sector 401(k) plan. Civil Service Retirement System and Federal Employee Retirement System covered employees may also participate in the Financial Institutions Thrift Plan (FITP), a 401(k) plan. Employees covered under FIRF may participate in FITP only. All employees may contribute up to 15% of their earnings to the plans. OTS makes matching contributions of up to 7% to the plans for FERS and FIRF participants and up to 2 % for CSRS participants.

The retirement expenses for all OTS plans, included in benefits expense in the accompanying comparative Statements of Operations and Changes in Net Position, are as follows (in thousands):

	For the Years Ended December 31	
	1999	1998
CSRS	$ 1,557	$ 1,407
FERS	1,787	1,662
FIRF	3,261	3,396
TSP	784	697
FITP	4,310	3,229
	$ 11,699	$ 10,391

11. DEFERRED COMPENSATION LIABILITY

As part of FIRREA, OTS assumed the Deferred Compensation Plans of the employees working for the Federal Home Loan Banks of Dallas and San Francisco. These plans allowed employees to defer a portion of their income and provided for employer matching contributions. OTS froze these plans and discontinued all plan deferrals or employer matches effective January 1, 1991. Benefits under the assumed plans were intended to be provided by cash value of life insurance policies issued by Mutual Benefit Life which went into rehabilitation on July 16, 1991. Under the rehabilitation plan, withdrawal of cash value prior to December 31, 1999 was restricted and subject to substantial withdrawal penalties. Current plan withdrawals have been funded by OTS. The cash values of those policies, included in other assets in the accompanying comparative Statements of Financial Position, are $1,840,000 in 1999 and $1,725,000 in 1998.

12. LEASE COMMITMENTS

OTS conducts most of its regional operations in leased facilities under noncancellable operating leases expiring at various dates through 2005. Many of the leases contain a provision to renew at the end of the initial term for an additional one to ten years. The rental payments are based on a minimum rental plus a proportional share of building operating expenses and taxes.

Some of the operating leases provide for rental escalations or stated annual rental increases in the amount of base rent over the lives of the leases. The accompanying comparative Statements of Operations and Changes in Net Position reflects rent expense on a straight-line basis over the lives of the leases.

The minimum rental commitments under noncancellable operating leases are as follows (in thousands):

Years ending December 31		
2000	$	5,170
2001		2,815
2002		2,585
2003		2,499
2004		2,277
Thereafter		945
	$	16,291

Rent expense under noncancellable operating leases totaled $5,040,969 and $5,069,937 in 1999 and 1998, respectively.

13. COMMITMENTS AND CONTINGENCIES

OTS is defending several lawsuits that could subject OTS to expenditure of funds. In each of these cases, OTS believes it has substantial legal and factual defenses to the claims asserted, and believes it is more likely than not that OTS will prevail.

In addition, there are approximately 118 lawsuits pending (including four with appealed judgments for plaintiff) against the United States in the U.S. Court of Federal Claims in connection with the elimination of the capital treatment of supervisory goodwill of certain thrift institutions. These cases arise from the enactment of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989. The U.S. Department of Justice is defending these cases on behalf of the United States. The Department of Justice Appropriations Act, 1999, provides a specific appropriation to pay judgments and compromise settlements in the supervisory goodwill cases. Furthermore, 28 U.S.C. Sec. 2517 provides that any judgment issued by the Court of Federal Claims must be paid from appropriated funds. An appropriation was established within the Department of Justice to fund any judgments under this litigation. Therefore, OTS funds, which are non-appropriated, cannot be used to pay judgments in these cases. For the aforementioned reasons, OTS has made no loss accrual for these cases.

There are also five "tax benefits" lawsuits (including one case that also contains supervisory goodwill claims) brought by thrifts and thrift investors in the U.S. Court of Federal Claims. In these cases, which are being handled by the Department of Justice, the plaintiffs seek damages from the United States arising from 1993 changes in the tax laws, whereby Congress eliminated the favorable tax treatment of certain thrift acquisitions. There is no specific appropriation for the payment of judgments or settlements in these cases. As noted above, however, any judgment issued by the Court of Federal Claims must be paid from appropriated funds. Therefore OTS funds, which are non-appropriated, cannot be used to pay judgments in these cases. For this reason, OTS has made no loss accrual for these cases.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL

To the Inspector General,
U.S. Department of the Treasury

We have audited the financial statements of the U.S. Department of the Treasury, Office of Thrift Supervision (OTS) as of and for the year ended December 31, 1999, and have issued our report thereon dated March 24, 2000. We conducted our audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable Office of Management and Budget (OMB) guidance for audits of federal financial statements.

In planning and performing our audit, we considered OTS's internal control, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Consequently, we do not provide an opinion on internal controls.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the agency's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control and its operation that we considered to be material weaknesses as defined above.

However, we noted certain matters involving the internal control and its operation that we have reported to the management of OTS in a separate letter dated March 24, 2000.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
(continued)

This report is intended solely for the information and use of the Inspector General of the U.S. Department of the Treasury, the management of the Office of Thrift Supervision, the Office of Management and Budget and Congress. However, this report is a matter of public record, and its distribution is not limited.

Deva & Associates, P.C.

Certified Public Accountants

March 24, 2000

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

To the Inspector General,
U.S. Department of the Treasury

We have audited the financial statements of the U.S. Department of the Treasury, Office of Thrift Supervision (OTS) as of and for the year ended December 31, 1999, and have issued our report thereon dated March 24, 2000.

We conducted our audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable Office of Management and Budget (OMB) guidance for audits of federal financial statements. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of OTS is responsible for complying with laws and regulations applicable to OTS. As part of obtaining reasonable assurance about whether OTS's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of applicable laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in applicable OMB guidance, including the compliance criteria referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996.

The results of our tests of compliance disclosed no instances of noncompliance with laws and regulations discussed in the preceding paragraph exclusive of FFMIA compliance criteria reported below.

Under the FFMIA compliance criteria, we performed tests of compliance using the implementation guidance for FFMIA included in Appendix D of OMB Bulletin 98-08 to determine whether OTS's financial management systems substantially comply with the federal financial management systems requirements, federal accounting standards, and the United States Standard General Ledger at the transaction level.

The results of our tests disclosed no instances in which OTS's financial management systems did not substantially comply with the three requirements discussed in the preceding paragraph.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS
(continued)

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion. This report is intended for the information of the Inspector General of the U.S. Department of the Treasury, the management of the Office of Thrift Supervision, the Office of Management and Budget and Congress. However, this report is a matter of public record, and its distribution is not limited.

Deva & Associates, P.C

Certified Public Accountants

March 24, 2000