Federal Deposit Insurance Corporation
550 17th Street, N.W., Washington, D.C. 20429-9990 Deputy to the Chairman and CFO

May 5, 2005

MEMORANDUM TO: The Board of Directors

FROM: Steven O. App
Deputy to the Chairman and
Chief Financial Officer

Fred Selby
Director, Division of Finance

SUBJECT: First Quarter 2005 CFO Report to the Board

The attached report highlights the Corporation's financial activities and results for the three months ending March 31, 2005.

Executive Summary

- Overall, the deposit insurance funds remained financially sound and exhibited healthy earnings during the first quarter 2005. Additionally, the estimated level of probable and reasonably estimable failure activity at the end of the first quarter remains at or near historically low levels for both insurance funds. However, as a result of significant declines in loss provisions during 2004 (that added substantially to 2004 comprehensive income) and reductions in unrealized gains on available-for-sale securities in the current year, there is a significant decline in year-over-year first quarter comprehensive income for BIF and a moderate decline for SAIF.

- The continued emphasis on expediting the liquidation of the remaining non-cash assets of the FSLIC Resolution Fund (FRF) continues to yield tangible results. At March 31, 2005, the book value of FRF assets in liquidation stands at only $63 million and staff projects that this book value could be reduced by approximately $30 million by year-end.

- Operating- and investment-related expenses ran below budget by 10 percent and 12 percent, respectively. The variance with respect to the operating budget expenses was primarily the result of limited resolutions and receivership activities in the first quarter.

- As noted in our prior CFO reports to the Board, there are a number of ongoing, corporate-wide initiatives that will begin to yield tangible operating cost savings beginning in 2006:

    - Over 500 employees will leave the Corporation under the buyout program that is currently underway.[1] Notices have also been issued to employees in the Division of Resolutions and Receiverships and the Division of Information Technology indicating that reductions-in-force will be conducted in September to address any staffing surpluses remaining in those divisions. These staffing reductions, in combination with

[1] Final buyout program results will be available in mid-May.

ongoing efforts to closely manage our vacancies, will help us meet our year-end 2005 staffing targets and yield substantial operating budget savings in 2006 and beyond.

- We are on target to complete and occupy the new Virginia Square facility during the first quarter of 2006. Consolidating many of our headquarters staff into this new facility will allow us to realize many operational efficiencies and to avoid the high costs of continuing to occupy rented space in downtown Washington, DC.

- A number of major new information systems have or are scheduled to come on line during 2005. These new systems will yield greater operational efficiencies as well as allow us to avoid the high costs of maintaining the expensive and outdated legacy systems that they are replacing. These initiatives will result in substantial permanent reductions in our current cost structure.

The following is an assessment of each of the three major finance areas: financial statements, investments, and budget.

Summary Trends and Results	
Financial Results	Comments
I. Financial Statements	• Deposit Insurance Fund reserve ratios remain moderately above the 1.25 designated reserve ratio (DRR), however, if insured deposit growth continues to increase at historically average rates, it could result in lower reserve ratios going forward. As of December 31, 2004, BIF's and SAIF's reserve ratios were 1.30 percent and 1.34 percent respectively. • BIF's fund balance increased modestly during the first quarter of 2005 (by approximately 0.1 percent) to $34.82 billion while SAIF's fund balance increased by $73 million (0.6 percent) to $12.8 billion. As noted above, these rates of fund growth may not be enough to offset the increase in BIF- and SAIF-estimated insured deposits experienced during the three months ending March 31, 2005. • OPEX coverage ratios (Interest Revenue/Operating Expenses), which have generally been on the decline since 2001, appear to be leveling off and may head modestly higher (notwithstanding the slight decline in these ratios during the first quarter of 2005) with the potential for generally steady higher investment portfolio revenue and steady-to-lower operating expenses going forward.
II. Investments	• The BIF and SAIF portfolios' book values increased during the first quarter of 2005. Moreover, as a result of higher Treasury yields on securities purchased during the quarter, the BIF portfolio's yield increased by 11 basis points, rising to 4.77 percent; similarly, the SAIF portfolio's yield also increased by 11 basis points, rising to 4.80 percent. • If market yields continue to increase, this should lead to increased interest revenue over the long run. Over the short run, increasing yields will accelerate the erosion of existing net unrealized gains on AFS securities. Moreover, regardless of changes in yields, existing net unrealized gains will be reduced due to the passage of time.

Summary Trends and Results	
Financial Results	Comments
III. Budget	• Approximately $236 million was spent in the Ongoing Operations component of the Corporate Operating Budget, which was about $10 million (4 percent) below the budget for the first quarter. Spending was somewhat lower than projected for outside services, personnel, travel, and facilities-related expenses. • No financial institution failures occurred during the first quarter 2005. As a result, about $3 million was spent in the Receivership Funding component of the Corporate Operating Budget, which was about $16 million (86 percent) below the budgeted level for first quarter. • Spending on approved investment projects was $16 million, which was $2 million (12 percent) below estimated 2005 spending for the first quarter on those projects. A detailed quarterly report on the status of those projects, except Virginia Square Phase II, is provided separately to the Board by the Capital Investment Review Committee. That report will address the variance at the individual project level. • The table on page 12 compares actual expenditures to the approved Corporate Operating Budget by major expense category and budget component for the three months ending March 31, 2005. The table on page 13 compares actual expenditures by each division/office in their combined operating and investment budgets to their budget/spending estimates for the same period.
Overall	• Insurance fund balance sheets and income statements continue to show solid results. • Both insurance funds continue to experience strong cash flows. • Both the bank and thrift industries are projected to remain relatively healthy in 2005.

I. <u>Corporate Fund Financial Statement Results</u> (See pages 7 - 9 for detailed data and charts.)

BIF

- The BIF contingent liability for future failures stands at $5 million as of March 31, 2005, approximately $3 million less than last quarter. This reduction is due primarily to a combination of placing fewer institutions on the contingent loss reserve list and the application of a lower assumed failure rate for a majority of the institutions on the list.

- For the three months ending March 31, 2005, BIF's comprehensive income was $37 million. This amount is substantially lower than the $382 million reported for the same period last year. This reduction is primarily due to a decrease of $302 million in unrealized gains on available-for-sale securities (due to a rise in interest rates) and a reduction in net income of $43 million. The decline in net income primarily resulted from a smaller negative adjustment to provision for insurance losses of $6 million compared to $37 million reduction for the same period last year. The BIF fund balance stood at $34.8 billion at March 31, 2005.

SAIF

- The SAIF contingent liability for future failures stands at $10 million as of March 31, 2005, an increase of $8 million from the $2 million level as of December 31, 2004. The increase is primarily due to the reclassification of an institution from a lower failure probability category last quarter to a higher failure-probability category for the first quarter 2005.

- For the quarter ending March 31, 2005, SAIF's comprehensive income was $73 million, compared to $154 million for the same period last year. This reduction of $81 million is due to a decrease of $100 million in unrealized gains on available-for-sale securities (caused by a rise in interest rates) that was partially offset by a slight increase in net income of $19 million. The increase in net income primarily resulted from a reduction in the provision for insurance losses of $14 million this quarter compared to a positive $1 million adjustment for the same period last year. The SAIF fund balance stood at $12.8 billion at March 31, 2005.

FRF

- For the three months ending March 31, 2005, the FDIC, as manager of the FRF, made payments in two Goodwill cases totaling approximately $382 million. While the FRF reimburses the U.S. Department of Justice for reasonable defense-related costs incurred in these Goodwill cases, actual judgments and/or settlement amounts paid to plaintiffs are funded through a separate, indefinite appropriation account.

II. Investments Results and Prospective Strategies (See pages 10 – 11 for detailed data and charts.)

BIF

- The book value of the BIF investment portfolio increased by $131 million or approximately 0.39 percent—from $33.231 billion on December 31, 2004, to $33.362 billion on March 31, 2005.

- During the first quarter of 2005, taking advantage of the rise in yields on intermediate- to longer-maturity Treasury securities, FDIC purchased new securities for the BIF portfolio with a total par value of $2.650 billion, a weighted average maturity (WAM) of 6.47 years, and a weighted average yield to maturity (YTM) of 4.01 percent. At the end of the quarter, the effective duration of the BIF portfolio was 2.55 years.

- The BIF investment portfolio's total return for the first quarter was -0.435 percent or approximately 28 basis points greater than the return of the benchmark, the Merrill Lynch 1 – 10 Year U.S. Treasury Index, which earned -0.717 percent during the first quarter.

SAIF

- The book value of the SAIF investment portfolio increased by $193 million or approximately 1.61 percent—from $11.962 billion on December 31, 2004, to $12.155 billion on March 31, 2005.

- During the first quarter of 2005, again taking advantage of the rise in yields on intermediate- to longer-maturity Treasuries securities, FDIC purchased new securities for the SAIF portfolio with a total par value of $945 million, a WAM of 6.30 years, and a weighted average YTM of 3.98 percent. At the end of the quarter, the effective duration of the SAIF portfolio was 2.73 years.

- The SAIF investment portfolio's total return for the first quarter was -0.533 percent or approximately 18 basis points greater than the return of the benchmark, the Merrill Lynch 1 – 10 Year U.S. Treasury Index, which earned -0.717 percent during the first quarter.

The Treasury Market

- Treasury yields increased across all maturity sectors (the one exception being the thirty-year maturity sector, which registered a modest decline during the first quarter). The largest increases were exhibited by securities within the two- to three-year sector, while the yield increase on the ten-year note was more modest. The Treasury yield curve continued to flatten during the quarter, with the spread between two- and ten-year securities ending the quarter at 70 basis points, which was 45 basis points lower than the 115 basis point spread at the end of fourth quarter of 2004.

Prospective Strategies

- The current investment strategies provide the flexibility to purchase a wide range of different Treasury securities with varying maturities, depending on Treasury market conditions and developments during the second quarter of 2005, while at the same time ensuring that the portfolios maintain sufficient liquidity.

- Similar to the first quarter, as higher yields become available—either as a result of an upward shift in the yield curve or because of significant price volatility—the strategy does provide the flexibility to purchase comparatively higher-yielding, longer-maturity Treasury securities.

III. Budget Results (See pages 12-13 for detailed data.)

Significant Spending Variances by Major Expense Category[2]

Ongoing Operations

There were no Major Expense Categories in which a Significant Spending Variance occurred during the first quarter in the Ongoing Operations component of the Corporate Operating Budget.

Receivership Funding

There was only one Major Expense Category in which a Significant Spending Variance occurred during the first quarter in the Receivership Funding component of the Corporate Operating Budget:

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[2] Significant Spending Variances for the three months ending March 31, 2005, are defined as those that exceed the YTD budget by $3 million and represent more than 5 percent of the budget, or those that are under the YTD budget by more than $5 million and represent more than 10 percent of that budget.

- Outside Services-Personnel expenditures were $13 million, or 86 percent, less than budgeted, primarily due to less resolution activity than budgeted through the first quarter.

Significant Spending Variances by Division/Office[3]

There was only one organization that had a Significant Spending Variance during the first quarter:

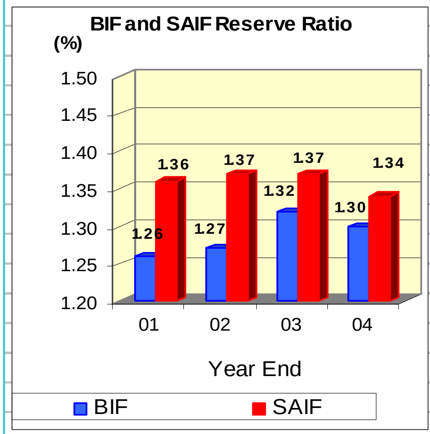
The Division of Resolutions and Receiverships spent $15 million, or 45 percent, less than budgeted. This was largely the result of contractual service expenses that were $11 million lower-than-budgeted due to less resolution activity workload than budgeted through the first quarter in the Receivership Funding component of its budget.

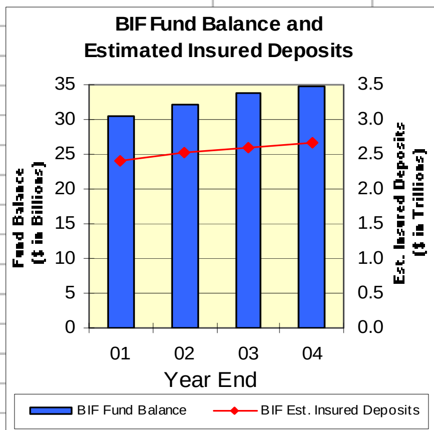
[3] Information on division/office variances reflects variances in both the Corporate Operating and Investment portions of the budget.

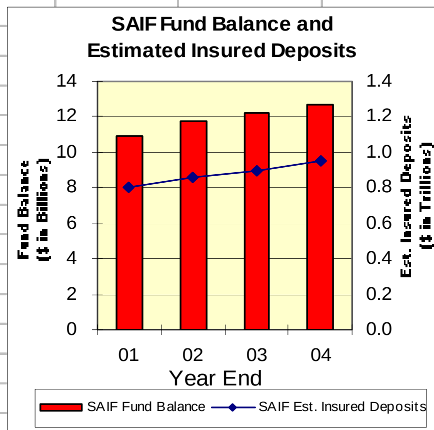
Fund Financial Results

($ in millions – All data is unaudited)

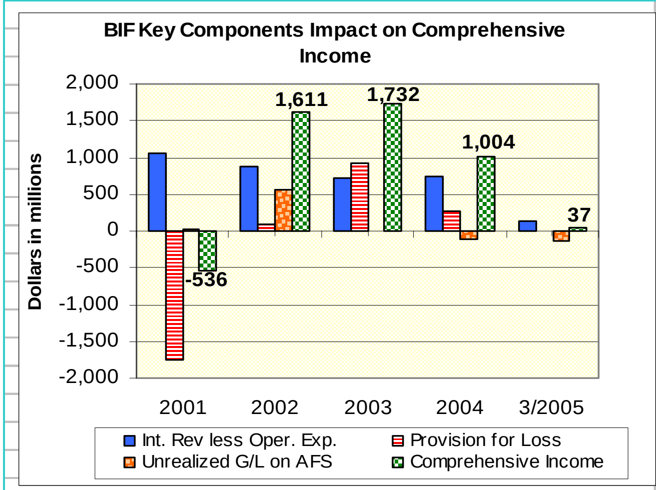
	Mar-05	Dec-04	Mar-05	Dec-04
Cash & cash equivalents - unrestricted	$ 892	$ 1,822	$ 231	$ 644
Cash & other assets - restricted for SAIF member exit fees	na	na	331	328
Investment in U.S. Treasury obligations, net:	33,035	32,108	12,123	11,556
Interest receivable on investments and other assets, net	620	602	216	201
Receivables from resolutions, net	364	375	257	347
Property, buildings and other capitalized assets, net	364	357	na	na
Total Assets	**$ 35,275**	**$ 35,264**	**$ 13,158**	**$ 13,076**
Accounts payable and other liabilities	246	269	24	26
Contingent Liabilities: future failures	5	8	10	2
Contingent Liabilities: litigation losses & other	200	200	0	0
SAIF member exit fees & investment proceeds held in escrow	na	na	331	328
Total Liabilities	**$ 451**	**$ 477**	**$ 365**	**$ 356**
FYI: Unrealized gain on available-for-sale securities	563	690	197	238
FUND BALANCE	**$ 34,824**	**$ 34,787**	**$ 12,793**	**$ 12,720**

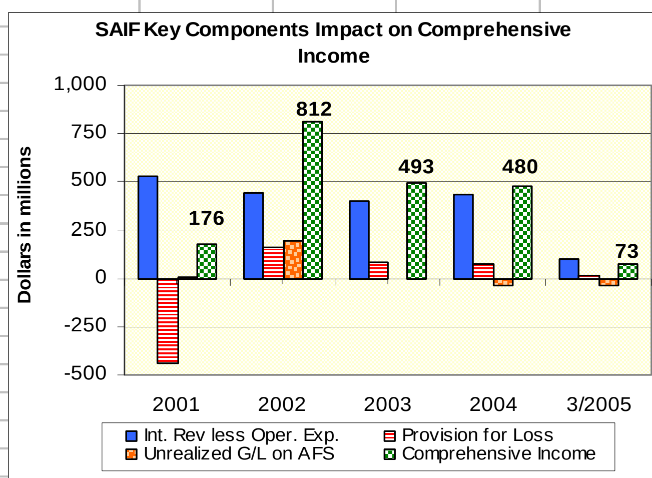






Income Statement	BIF		SAIF	
	Mar-05	Mar-04	Mar-05	Mar-04
Assessments earned	$ 13	$ 19	$ 2	$ 3
Interest earned on investment securities	346	340	127	122
Other revenue	4	3	0	0
Total Revenue	**$ 363**	**$ 362**	**$ 129**	**$ 125**
Operating expenses (includes depreciation expense)	204	190	29	29
Provision for insurance losses	(6)	(37)	(14)	1
Other expenses	1	2	0	0
Total Expenses & Losses	**$ 199**	**$ 155**	**$ 15**	**$ 30**
Net Income	**$ 164**	**$ 207**	**$ 114**	**$ 95**
Unrealized (loss)/gain on available-for-sale securities	(127)	175	(41)	59
YTD Comprehensive Income	**$ 37**	**$ 382**	**$ 73**	**$ 154**

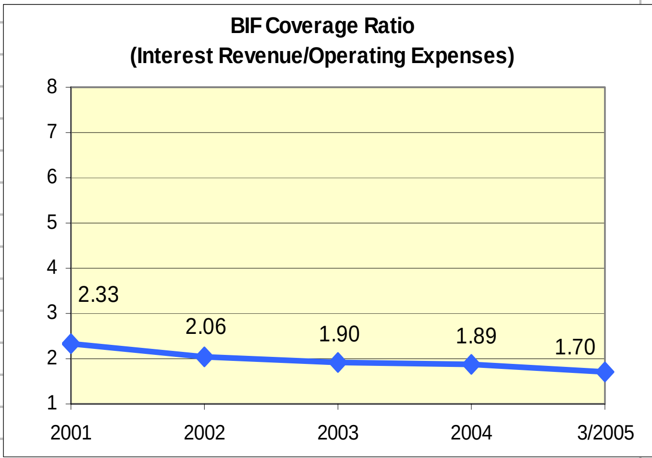


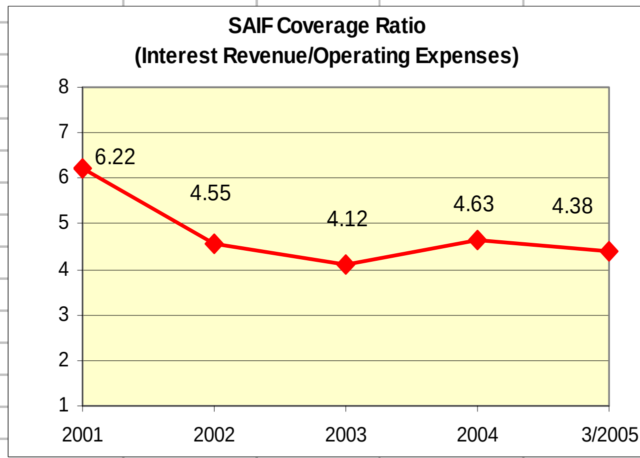


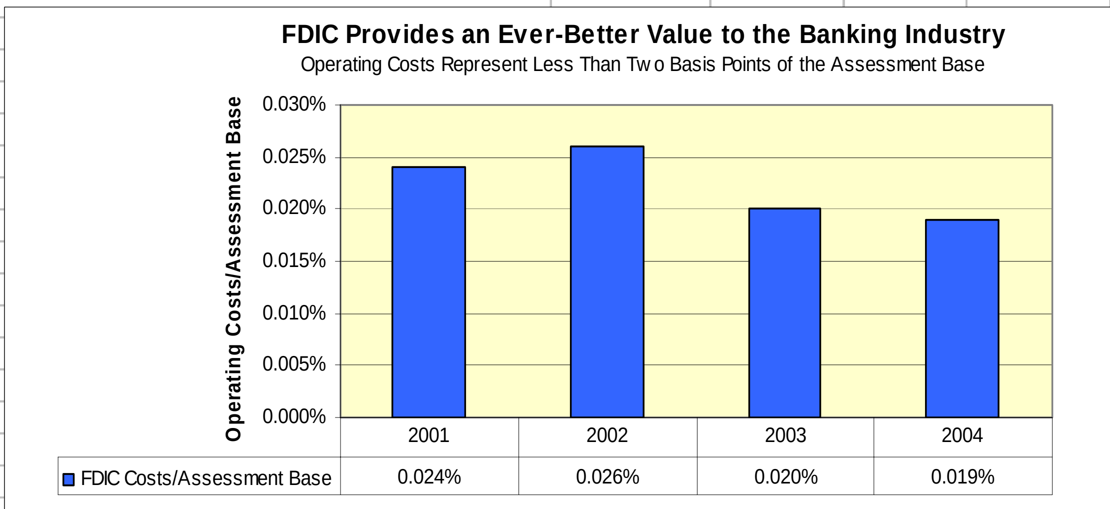
Fund Financial Results - continued

($ in millions – All data is unaudited)

Income Statement - (continued)





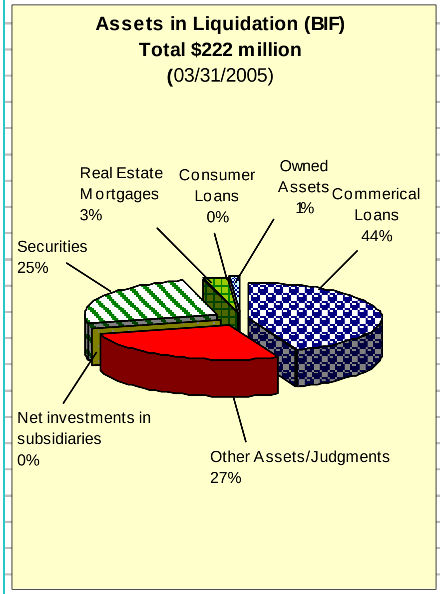


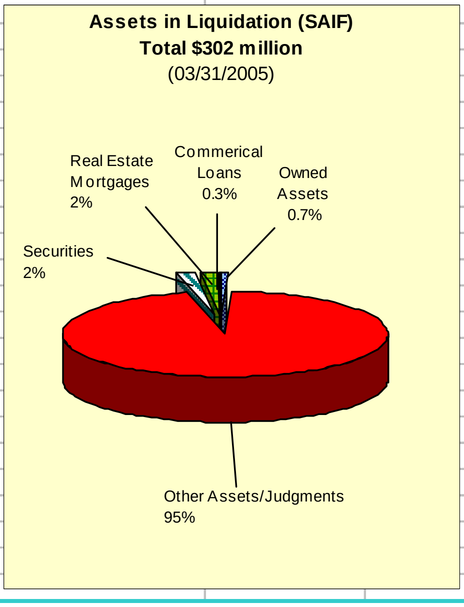
Statements of Cash Flows	BIF		SAIF	
	Mar-05	Mar-04	Mar-05	Mar-04
Net Income	**$ 164**	**$ 207**	**$ 113**	**$ 95**
Amortization of U.S. Treasury obligations (unrestricted)	177	196	63	69
TIPS Inflation Adjustment	5	(5)	2	(2)
Depreciation on property and equipment	13	13	na	na
Provision for insurance losses	(6)	(37)	(14)	1
Terminations/adjustments of work-in-process accounts	0	0	na	na
Net change in operating assets and liabilities	(8)	93	97	(27)
Net Cash Provided by Operating Activities	**$ 345**	**$ 467**	**$ 261**	**$ 136**
Investments matured and sold	2,050	1,050	500	275
Investments purchased (includes purchase of property and equipment)	(3,325)	(1,725)	(1,212)	(569)
Net Cash (Used) by Investing Activities	**$ (1,275)**	**$ (675)**	**$ (712)**	**$ (294)**
Net Decrease in Cash and Cash Equivalents	(930)	(208)	(451)	(158)
Cash and Cash Equivalents at beginning of year	1,822	2,544	701	1,059
Unrestricted Cash and Cash Equivalents - Ending	na	na	**$ 231**	**$ 668**
Restricted Cash and Cash Equivalents - Ending	na	na	**$ 19**	**$ 233**
Cash and Cash Equivalents - Ending	**$ 892**	**$ 2,336**	**$ 250**	**$ 901**

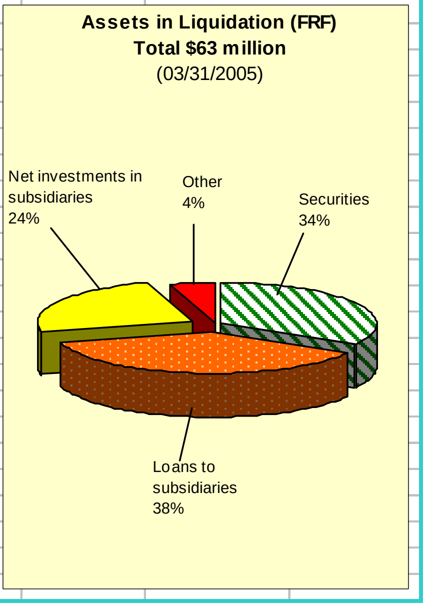
Fund Financial Results - continued

($ in millions – All data is unaudited)

FSLIC Resolution Fund (FRF) - Statements of Cash Flows	Mar-05	Mar-04
Net (Loss)/Income	$ (367)	$ 77
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Provision for insurance losses	(2)	2
Net change in operating assets and liabilities	35	(80)
Net Cash (Used) by Operating Activities	**(334)**	**(1)**
Investment in securitization-related assets acquired from receivership	0	82
Net Cash Provided by Investing Activities	**0**	**82**
Net Cash Provided by Financing Activities	**382**	**0**
Net Increase in Cash and Cash Equivalents	48	81
Cash and Cash Equivalents at beginning of year	3,501	3,278
Cash and Cash Equivalents - Ending	**$ 3,549**	**$ 3,359**







Corporate Investment Portfolio Summary
(Dollar Values in Millions)

	BIF			SAIF		
	3/31/05	12/31/04	Change	3/31/05	12/31/04	Change
Par Value	$31,870	$32,198	($328)	$11,629	$11,599	$30
Book Value	$33,362	$33,231	$131	$12,155	$11,962	$193
Market Value	$34,254	$34,623	($369)	$12,526	$12,529	($3)
Portfolio Liquidity [1]	$11,284	$12,872	($1,588)	$3,330	$3,827	($497)
Liquidity Target Floor	$10,000	$11,000	($1,000)	$3,000	$3,000	$0
Portfolio Liquidity % of Total Portfolio	32.4%	36.6%	(4.2%)	26.1%	30.1%	(4.0%)
Year-to-Date Total Return (Portfolio)	(0.435%)	2.831%	NA	(0.533%)	2.862%	NA
Year-to-Date Total Return (Benchmark) [2]	(0.717%)	1.964%	NA	(0.717%)	1.964%	NA
Total Return Variance in basis points	28	87	NA	18	90	NA
Yield-to-Maturity [3]	4.77%	4.66%	0.11%	4.80%	4.69%	0.11%
Weighted Average Maturity (in years)	3.33	2.98	0.35	3.50	3.22	0.28
Effective Duration (in years) [4]						
Total Portfolio	2.55	2.30	0.25	2.73	2.53	0.20
Available-for-Sale Securities	2.08	2.09	(0.01%)	2.21	2.27	(0.06)
Held-to-Maturity Securities	2.81	2.57	0.24	2.93	2.79	0.14

[1] Portfolio liquidity is the total market value (including accrued interest) of overnight investments, available-for-sale securities, and held-to-maturity securities maturing within three months.

[2] The benchmark is the total return of the Merrill Lynch 1-10 Year U.S. Treasury Index.

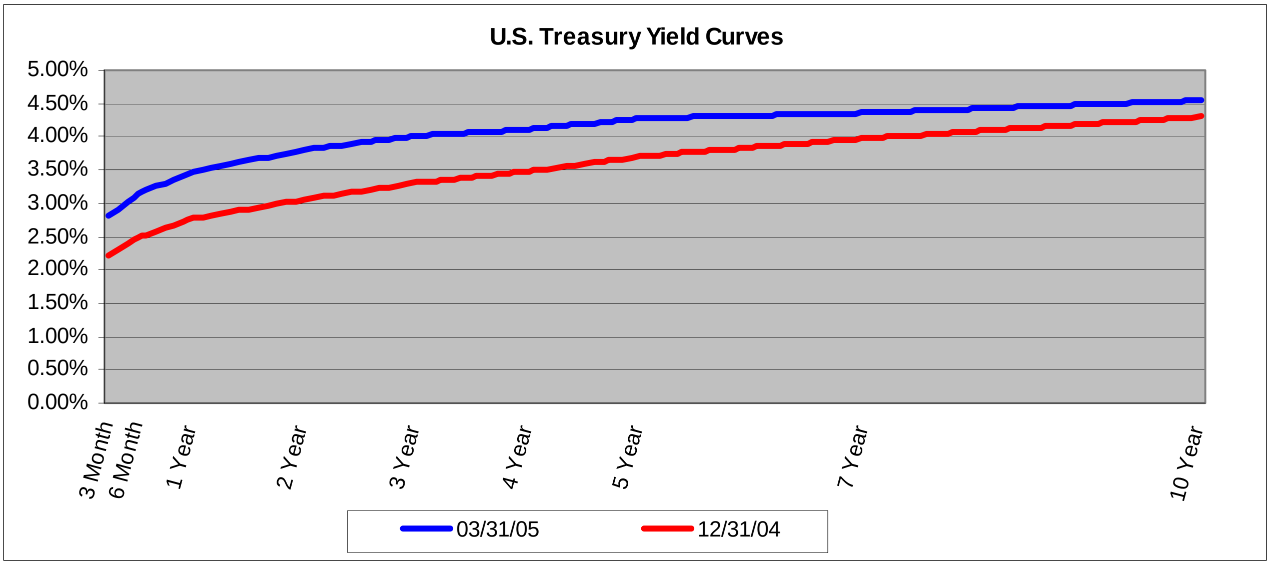
[3] The yield-to-maturity includes the potential yield of Treasury Inflation-Protected Securities (TIPS), which assume an average year-over-year increase in CPI of 2.2%.

[4] For each TIPS, a 60% factor is applied to its real yield duration to arrive at an estimated effective duration.

National Liquidation Fund (NLF) Investment Portfolio Summary
(Dollar Values in Millions)

	3/31/05	12/31/04	Change
Book Value [5]	$517	$612	($95)
Yield-to-Maturity	2.72%	2.25%	0.47%
Weighted Average Maturity (in days)	52	41	11

[5] Due to the short-term nature of the NLF, the portfolio's Book and Market Values are identical for reporting purposes.



Approved Investment Strategy

BANK INSURANCE FUND

Current Strategy as of 1st Quarter 2005

Maintain a $150 million target floor overnight investment balance.

Strategically invest all available funds in excess of the target overnight investment balance, which may include purchasing conventional Treasury securities within the zero- to twelve-year maturity sector, purchasing Treasury Inflation-Protected securities (TIPS) within the two- to ten-year maturity sector, and/or purchasing callable Treasury securities with final maturities not to exceed twelve years, subject to the following limitations:

- → **TIPS should not total more than $6.5 billion (adjusted par value) by quarter-end;**
- → **Available-for-sale (AFS) securities should not total more than $8.0 billion (par) by quarter-end; and**
- → **All newly purchased AFS securities should have maturities of six years or less.**

Moreover, staff will strive to maintain a $10 billion target floor liquidity balance.

Strategy Changes for 2nd Quarter 2005

None

SAVINGS ASSOCIATION INSURANCE FUND

Current Strategy as of 1st Quarter 2005

Maintain a $50 million target floor overnight investment balance.

Strategically invest all available funds in excess of the target overnight investment balance, which may include purchasing conventional Treasury securities within the zero- to twelve-year maturity sector, purchasing TIPS within the two- to ten-year maturity sector, and/or purchasing callable Treasury securities with final maturities not to exceed twelve years, subject to the following limitations:

- → **TIPS should not total more than $2.4 billion (adjusted par value) by quarter-end;**
- → **AFS securities should not total more than $2.4 billion (par value) by quarter-end; and**
- → **All newly purchased AFS securities should have maturities of six years or less.**

Moreover, staff will strive to maintain a $3.0 billion target floor liquidity balance.

Strategy Changes for 2nd Quarter 2005

AFS securities limit lowered to $2.3 billion and liquidity target floor lowered to $2.7 billion.

NATIONAL LIQUIDATION FUND

Current Strategy as of 1st Quarter 2005

Maintain a $30 million target floor overnight investment balance.

Strategically invest the remaining funds in the zero- to 12-month maturity sector.

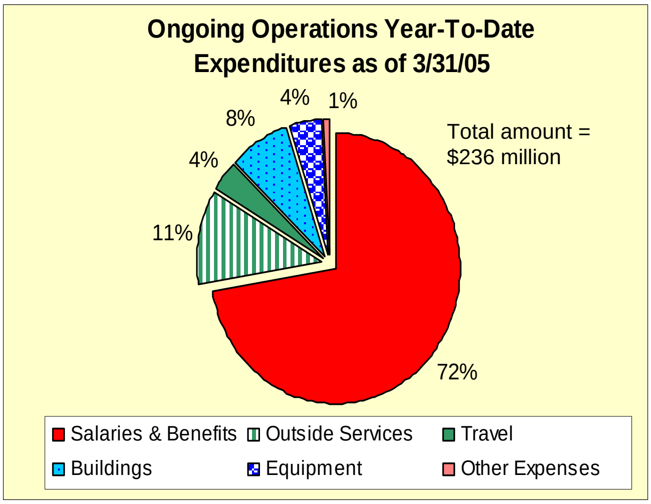
Strategy Changes for 2nd Quarter 2005

None

Executive Summary of 2005 Budget and Expenditures by Major Expense Category Through March 31, 2005 (Dollars in Thousands)

Major Expense Category	YTD Budget	YTD Expenditures	% of Budget Used	Variance
Corporate Operating Budget				
Ongoing Operations				
Salaries & Compensation	$172,740	$170,507	99%	($2,233)
Outside Services - Personnel	27,251	23,928	88%	(3,323)
Travel	9,722	8,596	88%	(1,126)
Buildings	20,318	18,627	92%	(1,691)
Equipment	9,663	9,804	101%	141
Outside Services - Other	3,805	2,983	78%	(822)
Other Expenses	2,437	1,957	80%	(480)
Total Ongoing Operations	**$245,936**	**$236,402**	**96%**	**($9,534)**
Receivership Funding				
Salaries & Compensation	$855	$0	0%	($855)
Outside Services - Personnel	15,587	2,154	14%	(13,433)
Travel	1,294	13	1%	(1,281)
Buildings	450	253	56%	(197)
Equipment	56	1	2%	(55)
Outside Services - Other	135	7	5%	(128)
Other Expenses	373	133	36%	(240)
Total Receivership Funding	**$18,750**	**$2,561**	**14%**	**($16,189)**
Total Corporate Operating Budget	**$264,686**	**$238,963**	**90%**	**($25,723)**
Investment Budget [1]	**$18,282**	**$16,066**	**88%**	**($2,216)**
Grand Total	**$282,968**	**$255,029**	**90%**	**($27,939)**

1) Budgets for investment projects are approved on a multi-year basis; the "Year-to-Date Budget" amount reflects the 2005 spending estimates for approved projects. The Capital Investment Review Committee (CIRC) reports to the Board quarterly on the status of each investment project, including budget variances.



Executive Summary of 2005 Budget and Expenditures by Budget Component and Division/Office Through March 31, 2005 (Dollars in Thousands)

Division/Office	YTD Budget	YTD Expenditures	% of Budget Used	Variance
Corporate Operating Budget				
Supervision & Consumer Protection	$92,198	$88,201	96%	($3,997)
Information Technology	40,188	40,980	102%	792
Administration	43,404	39,603	91%	(3,801)
Resolutions & Receiverships	33,721	19,106	57%	(14,615)
Legal	24,086	21,802	91%	(2,284)
Insurance & Research	8,585	7,745	90%	(840)
Finance	7,336	7,724	105%	388
Inspector General	7,216	6,612	92%	(604)
Corporate University	2,869	2,183	76%	(686)
Executive Support [1]	3,544	3,450	97%	(94)
Executive Offices [2]	1,039	1,176	113%	137
Government Litigation	500	381	76%	(119)
Total Corporate Operating Budget	**$264,686**	**$238,963**	**90%**	**($25,723)**
Investment Budget [3]				
Supervision & Consumer Protection	$116	$17	15%	($99)
Information Technology	7,884	5,876	75%	(2,008)
Resolutions & Receiverships [4]	465	(205)	(44%)	(670)
Legal	10	1	10%	(9)
Insurance & Research	2,239	0	0%	(2,239)
Finance	186	102	55%	(84)
Virginia Square Phase II	7,382	10,275	139%	2,893
Total Investment Budget [3]	**$18,282**	**$16,066**	**88%**	**($2,216)**
Combined Division/Office Budgets				
Supervision & Consumer Protection	$92,314	$88,218	96%	($4,096)
Information Technology	48,072	46,856	97%	(1,216)
Administration	43,404	39,603	91%	(3,801)
Resolutions & Receiverships	34,186	18,901	55%	(15,285)
Legal	24,096	21,803	90%	(2,293)
Insurance & Research	10,824	7,745	72%	(3,079)
Finance	7,522	7,826	104%	304
Inspector General	7,216	6,612	92%	(604)
Corporate University	2,869	2,183	76%	(686)
Executive Support [1]	3,544	3,450	97%	(94)
Executive Offices [2]	1,039	1,176	113%	137
Government Litigation	500	381	76%	(119)
Virginia Square Phase II	7,382	10,275	139%	2,893
Grand Total	**$282,968**	**$255,029**	**90%**	**($27,939)**

1) Executive Support include the Offices of Diversity and Economic Opportunity, Public Affairs, Ombudsman, Legislative Affairs, and Enterprise Risk Management.

2) Executive Offices include the Chairman, Vice Chairman, Board of Directors, Chief Operating Officer, and Chief Financial Officer.

3) Budgets for investment projects are approved on a multi-year basis; the "Year-to-Date Budget" amount reflects the 2005 spending estimates for approved projects. The Capital Investment Review Committee (CIRC) reports to the Board quarterly on the status of each investment project, including budget variances.

4) The credit balance in the YTD Expenditures column for DRR is the result of a $180,000 correction made in 2005 for an expenditure incorrectly charged to the ASTEP project by DOF in 2004. Additionally, DOA and DRR did not enter or monitor project codes correctly in the Purchase Order System resulting in a failure to accrue approximately $23,000 in expense.