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, 2002

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

March 31, 2003

Herb Yolles
Inspector General

EXECUTIVE SUMMARY

PURPOSE AND SCOPE The National Credit Union Administration (NCUA) Office of Inspector General contracted with the independent public accounting firm of Deloitte & Touche LLP 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, 2002.

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 over financial reporting and evaluated compliance with certain provisions of laws and regulations, relating to financial reporting as part of their audit.

The audits were performed in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States.

FINANCIAL STATEMENT CONTRACT The Inspector General contracted with Deloitte & Touche LLP in September 2001 to perform the financial statement audits mentioned above. The contract was for 2001, with an option for 2002. The Deputy Inspector General is the contracting officer's technical representative for this contract.

AUDIT RESULTS Deloitte & Touche LLP 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, 2002, and the results of operations for the year then ended.

Although Deloitte & Touche LLP 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 LLP did not find any matters considered to be *material* weaknesses in their review of the Funds' internal control structures pertinent to financial reporting. However, during the performance of the audit, we developed recommendations related to internal control over financial reporting and certain observations and recommendations on other accounting, administrative, and operating matters. The observations and recommendations section of this report is restricted to official use only.

National Credit Union Administration Operating Fund

Financial Statements for the Years Ended December 31, 2002 and 2001, and Independent Auditors' Reports

NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND

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INDEPENDENT AUDITORS' REPORT

Inspector General
National Credit Union Administration

We have audited the accompanying balance sheets of the National Credit Union Administration Operating Fund as of December 31, 2002 and 2001, 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, 2002 and 2001, 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 28, 2003, 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. This 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 28, 2003

NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND

BALANCE SHEETS
DECEMBER 31, 2002 AND 2001
(Dollars in thousands)

ASSETS

	2002	2001
ASSETS:		
Cash and cash equivalents	$ 18,582	$ 15,880
Due from National Credit Union Share Insurance Fund (Note 4)	670	1,723
Employee advances	254	529
Other accounts receivable	96	93
Prepaid expenses	97	265
Fixed assets—net of accumulated depreciation and amortization (Note 3)	36,197	38,455
Employee residences held for resale		269
TOTAL ASSETS	$ 55,896	$ 57,214

LIABILITIES AND FUND BALANCE

	2002	2001
LIABILITIES:		
Accounts payable	$ 3,311	$ 5,395
Obligations under capital leases (Note 5)	548	2,285
Accrued wages and benefits	4,987	4,798
Accrued annual leave	7,669	7,531
Accrued employee travel	776	776
Notes payable to National Credit Union Share Insurance Fund (Note 4)	28,922	30,335
Total liabilities	46,213	51,120
FUND BALANCE	9,683	6,094
TOTAL LIABILITIES AND FUND BALANCE	$ 55,896	$ 57,214

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE
YEARS ENDED DECEMBER 31, 2002 AND 2001
(Dollars in thousands)

	2002	2001
REVENUES:		
Operating fees	$53,820	$46,858
Interest	565	989
Other	188	161
Total revenues	54,573	48,008
EXPENSES (Note 4):		
Employee wages and benefits	39,842	33,266
Travel	4,146	4,046
Rent, communications, and utilities	1,553	1,226
Contracted services	1,987	1,950
Other	3,456	3,660
Total expenses	50,984	44,148
EXCESS OF REVENUES OVER EXPENSES	3,589	3,860
FUND BALANCE, BEGINNING OF YEAR	6,094	2,234
FUND BALANCE, END OF YEAR	$ 9,683	$ 6,094

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION OPERATING FUND

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2002 AND 2001
(Dollars in thousands)

	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of revenues over expenses	$ 3,589	$ 3,860
Adjustments to reconcile excess of revenues over expenses to cash provided by operating activities:		
Depreciation and amortization	3,406	3,574
Loss on disposal of employee residences held for resale	16	28
Loss on disposal of fixed assets	54	9
Miscellaneous allowances	(4)	1
(Increase) decrease in assets:		
Due from National Credit Union Share Insurance Fund	1,053	(785)
Employee advances	275	134
Other accounts receivable	(3)	60
Prepaid expenses	168	164
(Decrease) increase in liabilities:		
Accounts payable	(2,084)	1,774
Accrued wages and benefits	189	306
Accrued annual leave	138	863
Accrued employee travel		9
Net cash provided by operating activities	6,797	9,997
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of fixed assets and employee residences held for resale	(1,517)	(1,272)
Proceeds from sale of employee residences held for resale	595	265
Net cash used in investing activities	(922)	(1,007)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of notes payable	(1,413)	(1,413)
Principal payments under capital lease obligations	(1,760)	(1,620)
Net cash used in financing activities	(3,173)	(3,033)
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,702	5,957
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	15,880	9,923
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 18,582	$ 15,880

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:
Interest paid during the years ended December 31, 2002 and 2001, was $1,210 and $1,695, respectively.

SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING ACTIVITIES:
Capital lease obligations of $23 and $45 were incurred when the Fund entered into leases for new equipment during the years ended December 31, 2002 and 2001, respectively.

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2002 AND 2001

1. ORGANIZATION AND PURPOSE

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

2. SIGNIFICANT ACCOUNTING POLICIES

Cash Equivalents—The Federal Credit Union Act permits the Fund to make investments in United States Government securities or securities guaranteed as to both principal and interest by the United States Government. Cash equivalents are highly liquid investments with original maturities of three months or less. All investments in 2002 and 2001 were cash equivalents and are stated at cost, which approximates fair value.

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 Section 501(c)(1) of the Internal Revenue Code.

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

> Cash and cash equivalents, 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 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.

Disclosure About Recent Accounting Pronouncements—In June 2002, Statement of Financial Accounting Standards ("SFAS") No. 146, *Accounting for Costs Associated with Exit or Disposal Activities,* was issued. This statement requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred rather than the date of an entity's commitment to an exit plan. The statement is effective for exit or disposal activities that are initiated after December 31, 2002. The Fund's adoption of SFAS No. 146 will have an effect on the timing of the recognition of the costs of its regional restructuring plan. Such impact is described in Note 9, Subsequent Events.

3. FIXED ASSETS

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

	2002	2001
Office building and land	$ 42,453	$ 42,419
Furniture and equipment	10,607	9,592
Equipment under capital leases	4,918	5,035
Total	57,978	57,046
Less: Accumulated depreciation and amortization	(21,781)	(18,591)
Fixed assets—net	$ 36,197	$ 38,455

Accumulated amortization balances for equipment under capital leases as of December 31, 2002 and 2001, were $4,432,000 and $2,881,000, respectively.

4. TRANSACTIONS WITH NCUSIF

Certain administrative services are provided by the Fund to NCUSIF. The Fund charges NCUSIF for these services based upon an annual allocation factor approved by the NCUA Board derived from a study of actual usage. The allocation factors were 62.00% and 66.72% to NCUSIF for 2002 and 2001, respectively. The cost of the services allocated to NCUSIF, which totaled approximately $83,182,000 and $88,508,000 for 2002 and 2001, 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 $46,000 and $66,000 for 2002 and 2001, respectively. The outstanding principal balances at December 31, 2002 and 2001, were $1,098,000 and $1,170,000, 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 $1,164,000 and $1,629,000 for 2002 and 2001, respectively. The note payable balances at December 31, 2002 and 2001, were approximately $27,824,000 and $29,165,000, respectively.

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

	Unsecured Term Note	Secured Term Note	Total
2003	$ 72	$ 1,341	$ 1,413
2004	72	1,341	1,413
2005	72	1,341	1,413
2006	72	1,341	1,413
2007	72	1,341	1,413
Thereafter	738	21,119	21,857
	$ 1,098	$ 27,824	$ 28,922

The variable rate on both notes is equal to NCUSIF's prior-month yield on investments. The average interest rates during 2002 and 2001 were 4.09% and 5.47%, respectively. The interest rates at December 31, 2002 and 2001, were 3.51% and 4.56%, respectively.

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 2007. Office rental charges amounted to approximately $1,009,000 and $966,000 of which approximately $625,500 and $654,500 was reimbursed by NCUSIF for 2002 and 2001, 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 2006.

The future minimum lease payments as of December 31, 2002, are as follows (in thousands):

	Operating Leases	Capital Leases
2003	$ 828	$ 504
2004	858	42
2005	346	9
2006	199	6
2007	183	
Total	$ 2,414	561
Less: Imputed interest		(13)
Present value of minimum lease payments		$ 548

Based on the allocation factor approved by the NCUA Board for 2002, NCUSIF will reimburse the Fund for approximately 62% of the future operating 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 2002 and 2001, the Fund's contributions to the plans were approximately \$10,783,000 and \$10,310,000, respectively, of which approximately \$6,685,000 and \$6,879,000 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):

	December 31, 2002		December 31, 2001	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$18,582	$18,582	$15,880	$15,880
Due from NCUSIF	670	670	1,723	1,723
Employee advances	254	254	529	529
Other accounts receivable	96	96	93	93
Accounts payable	3,311	3,311	5,395	5,395
Obligation under capital lease	548	548	2,285	2,285
Notes payable to NCUSIF	28,922	28,922	30,335	30,335

8. CONTINGENCIES

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

9. SUBSEQUENT EVENTS

NCUA announced on January 29, 2003 a regional restructuring plan, previously approved by the Board on November 21, 2002. The restructuring plan will relocate the Region VI office in Concord, California, to Phoenix, Arizona, and renumber it to Region V. The plan will also close the Region IV regional office in Chicago, Illinois. The process of relocating Region VI will begin immediately and be completed no later than December 2004. Region V, located in Austin, Texas, will be renumbered to become Region IV. Credit union supervision will be aligned with the five regions, and this alignment is scheduled to become effective as of January 1, 2004.

NCUA estimates that the costs to be incurred for the regional restructuring plan will be $7,466,000, which includes relocation costs of $6,016,000 and severance costs of $980,000. The majority of the costs are anticipated to be incurred during 2003 and 2004. Based on the allocation factors approved by the NCUA Board, the Fund is responsible for 38.00% of the total restructuring costs, or $2,837,000.

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National Credit Union Share Insurance Fund

Financial Statements for the Years Ended December 31, 2002 and 2001, and Independent Auditors' Reports

NATIONAL CREDIT UNION SHARE INSURANCE FUND

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INDEPENDENT AUDITORS' REPORT

Inspector General
National Credit Union Administration

We have audited the accompanying balance sheets of the National Credit Union Share Insurance Fund as of December 31, 2002 and 2001, 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, 2002 and 2001, 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 28, 2003, 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 28, 2003

Deloitte
Touche
Tohmatsu

NATIONAL CREDIT UNION SHARE INSURANCE FUND

BALANCE SHEETS
DECEMBER 31, 2002 AND 2001
(Dollars in thousands)

ASSETS	2002	2001
ASSETS:		
Investments (Note 6)	$ 4,535,537	$ 3,648,578
Cash and cash equivalents	1,008,693	1,335,753
Accrued interest receivable	69,174	67,178
Capital assessment receivable	3,697	
Assets acquired in assistance to insured credit unions	15,417	10,437
Capital notes advanced to insured credit unions		2,000
Notes receivable—National Credit Union Administration Operating Fund (Note 8)	28,922	30,335
Other notes receivable and advances		173
Fixed assets—net of accumulated depreciation and amortization (Note 3)	265	1,029
TOTAL ASSETS	$ 5,661,705	$ 5,095,483

LIABILITIES AND FUND BALANCE

LIABILITIES:		
Estimated losses from supervised credit unions (Note 4)	$ 47,543	$ 51,023
Amounts due to insured shareholders of liquidated credit unions	6,228	6,092
Due to National Credit Union Administration Operating Fund (Note 8)	670	1,723
Accounts payable	3	64
Obligations under capital leases (Note 9)	165	793
Total liabilities	54,609	59,695
FUND BALANCE:		
Insured credit unions' accumulated contributions	4,267,169	3,812,459
Insurance fund balance	1,339,927	1,223,329
Total fund balance	5,607,096	5,035,788
TOTAL LIABILITIES AND FUND BALANCE	$ 5,661,705	$ 5,095,483

See notes to financial statements.

NATIONAL CREDIT UNION SHARE INSURANCE FUND

STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2002 AND 2001
(Dollars in thousands)

	2002	2001
REVENUES:		
Interest	$ 213,252	$ 252,853
Other	1,226	1,703
Total revenues	214,478	254,556
EXPENSES (Note 8):		
Administrative expenses:		
Employee wages and benefits	65,005	66,692
Travel	6,764	8,111
Rent, communications, and utilities	2,533	2,457
Contracted services	3,241	3,910
Provision for insurance losses (Note 4)	12,513	
Other	7,824	9,335
Total expenses	97,880	90,505
EXCESS OF REVENUES OVER EXPENSES	$ 116,598	$ 164,051

See notes to financial statements.

NATIONAL CREDIT UNION SHARE INSURANCE FUND

STATEMENTS OF FUND BALANCE
YEARS ENDED DECEMBER 31, 2002 AND 2001
(Dollars in thousands)

	Insured Credit Unions' Accumulated Contributions	Insurance Fund Balance
BALANCE AT JANUARY 1, 2001	$3,468,932	$1,158,768
Contributions from insured credit unions	343,527	
Excess of revenues over expenses		164,051
Dividends to insured credit unions		(99,490)
BALANCE AT DECEMBER 31, 2001	3,812,459	1,223,329
Contributions from insured credit unions	454,710	
Excess of revenues over expenses		116,598
BALANCE AT DECEMBER 31, 2002	$4,267,169	$1,339,927

See notes to financial statements.

NATIONAL CREDIT UNION SHARE INSURANCE FUND

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2002 AND 2001
(Dollars in thousands)

	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of revenues over expenses	$ 116,598	$ 164,051
Adjustments to reconcile excess of revenues over expenses to cash provided by operating activities:		
Depreciation and amortization	764	767
Reserves (recoveries) relating to losses from supervised credit unions—net	(3,480)	(4,736)
(Increase) decrease in assets:		
Accrued interest receivable	(1,996)	2,083
Capital assessment receivable	(3,697)	
Assets acquired in assistance to insured credit unions, net	(4,980)	(1,363)
Capital notes advanced to insured credit unions, net	2,000	(1,854)
Other notes receivable and advances	173	(61)
(Decrease) increase in liabilities:		
Amounts due to National Credit Union Administration Operating Fund	(1,053)	785
Amounts due to insured shareholders of liquidated credit unions	136	(1,002)
Accounts payable	(61)	57
Net cash provided by operating activities	104,404	158,727
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(2,493,156)	(1,331,406)
Proceeds from maturities of investments	1,606,197	1,165,558
Collections on note receivable—National Credit Union Administration Operating Fund	1,413	1,413
Net cash used in investing activities	(885,546)	(164,435)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions from insured credit unions	454,710	343,527
Dividends to insured credit unions		(99,490)
Principal payments under capital lease obligation	(628)	(581)
Net cash provided by financing activities	454,082	243,456
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(327,060)	237,748
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,335,753	1,098,005
CASH AND CASH EQUIVALENTS, END OF YEAR	$1,008,693	$1,335,753

See notes to financial statements.

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. 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. Amortized cost is the face value of the securities plus the unamortized premium or less the unamortized discount.

Depreciation and Amortization—Furniture, 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, equipment and capital leases.

Advances to Insured Credit Unions—The Fund provides cash assistance in the form of interest and noninterest-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 non-performing assets of a credit union experiencing financial difficulty. These acquired assets are maintained by the Asset Management and Assistance Center in Austin, Texas, and are recorded by the Fund at their estimated net realizable value.

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%. The NCUA Board waived the 2002 and 2001 share insurance premiums (see Note 5).

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

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

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. The Fund has the ability and the intention to hold these notes to maturity.

d. *Other*—Accrued interest receivable, capital assessment 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, particularly the estimated losses from supervised credit unions, 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.

Recent Accounting Pronouncements—In June 2002, Statement of Financial Accounting Standards ("SFAS") No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" was issued. This statement requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred rather than the date of an entity's commitment to an exit plan. The statement is effective for exit or disposal activities that are initiated after December 31, 2002. The Fund's adoption of SFAS No. 146 will have an effect on the timing of the recognition of the costs of its regional restructuring plan. Such impact is described in Note 13, Subsequent Events.

In November 2002, the Financial Accounting Standards Board issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). This interpretation elaborates on the existing disclosure requirements for most guarantees, including loan guarantees. It also clarifies that at the time an entity issues a guarantee, the entity must recognize an initial liability for the fair value of the obligations it assumes under that guarantee and must disclose that information in its financial statements. This guidance does not apply to certain guarantee contracts, such as those issued by insurance companies or for a lessee's residual value guarantee embedded in a capital lease. The initial recognition and measurement provisions of FIN 45 apply on a prospective basis to guarantees issued or modified after December 31, 2002, regardless of the guarantor's fiscal year-end. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The Fund does not expect the adoption of FIN 45 to have a material impact on its financial position or results of operations.

3. FIXED ASSETS

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

	December 31,	
	2002	**2001**
Furniture and equipment	$ 522	$ 522
Equipment under capital leases	1,781	1,781
Total	2,303	2,303
Less: Accumulated depreciation and amortization	(2,038)	(1,274)
Total fixed assets—net	$ 265	$1,029

Accumulated amortization balances for equipment under capital leases as of December 31, 2002 and 2001, totaled $1,628,000 and $1,038,000, respectively.

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, 2002 and 2001, is $443 billion and $404 billion, respectively, which includes natural person and corporate credit unions. The total net reserves for identified and anticipated losses from supervised credit unions' failures is $48 million and $51 million at December 31, 2002 and 2001, respectively. Should there be no recoveries provided during the resolution process, possible additional reserves for $23 million and $27 million would be required as of December 31, 2002 and 2001, respectively.

In exercising its supervisory function, the Fund will, at times, extend guarantees of assets (primarily loans) to third-party purchasers or to credit unions to facilitate mergers. The Fund would be obligated upon non-performance. Such guarantees totaled approximately $0 and $2,217,000 at December 31, 2002 and 2001, respectively. The estimated losses from asset and merger guarantees are determined by management on a case-by-case evaluation.

In addition, the Fund may grant a guaranteed line-of-credit to a third party credit provider, such as a corporate credit union or bank, if a credit union has a current or immediate liquidity concern and the credit provider has refused to extend credit without a guarantee. The Fund would be obligated if the credit union failed to perform. Total line-of-credit guarantees of credit unions at December 31, 2002 and 2001, are approximately $1,800,000 and $200,000, respectively. The total balances outstanding under these line-of-credit guarantees at December 31, 2002 and 2001, are approximately $80,000 and $77,000, respectively.

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

	Year Ended December 31,	
	2002	2001
BEGINNING BALANCE	$ 51,023	$ 55,759
Insurance losses	(21,625)	(9,204)
Recoveries	5,632	4,468
Provision for insurance losses	12,513	-
ENDING BALANCE	$ 47,543	$ 51,023

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. 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 that the normal operating level is 1.30% at December 31, 2002 and 2001. The calculated equity ratios at December 31, 2002 and 2001, were 1.27% and 1.25%, respectively.

Beginning in 2000, the CUMAA mandates that dividends are determined from specific ratios, which are based upon year-end reports of insured shares. Accordingly, dividends associated with insured shares at year-end are declared and paid in the subsequent year.

The NCUA Board has declared that no dividends were payable on insured shares as of December 31, 2002 and 2001, because the equity ratios, 1.27% and 1.25%, respectively, were below the normal operating level of 1.30%. Dividends of $99,490,000, which were associated with insured shares as of December 31, 2000, were declared and paid in 2001. Total insured shares as of December 31, 2002 and 2001, were $443 billion and $404 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, 2002				
	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	4.59 %	$2,224,524	$ 36,008	$ -	$2,260,532
Maturities after one year through five years	3.18 %	2,311,013	56,394		2,367,407
Total		$4,535,537	$ 92,402	$ -	$4,627,939

	December 31, 2001				
	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	5.56 %	$1,515,063	$ 30,843	$ -	$1,545,906
Maturities after one year through five years	5.10 %	2,133,515	73,017		2,206,532
Total		$3,648,578	$ 103,860	$ -	$3,752,438

Total investment purchases during 2002 and 2001 were approximately $2.5 billion and $1.3 billion, respectively. Investment maturities during 2002 and 2001 were approximately $1.6 billion and $1.2 billion, respectively. The Fund has the capability and management has the intention to hold all investments held at December 31, 2002 and 2001, to maturity. There were no investment sales during 2002 and 2001.

7. AVAILABLE BORROWINGS

The Fund is authorized by the Federal Credit Union Act to borrow from the Treasury of the United States, upon authorization by the NCUA Board, up to a maximum of $100,000,000. The NCUA Central Liquidity Facility ("CLF") is authorized to make advances to the Fund under terms and conditions established by the NCUA Board. No borrowings were obtained from these sources during 2002 and 2001.

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 factors were 62.00% and 66.72% to the Fund for 2002 and 2001, respectively. The cost of services provided by the NCUA Operating Fund was approximately $83,182,000 and $88,508,000 for 2002 and 2001, respectively, and includes pension contributions of approximately $6,685,000 and $6,879,000 to the Civil Service Retirement System and Federal Employees Retirement System defined benefit retirement plans for 2002 and 2001, 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 $46,000 and $66,000 for 2002 and 2001, respectively. The note receivable balances at December 31, 2002 and 2001, were approximately $1,098,000 and $1,170,000, 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 $1,164,000 and $1,629,000 for 2002 and 2001, respectively. The note receivable balances at December 31, 2002 and 2001, were approximately $27,824,000 and $29,165,000, respectively.

The above notes mature as follows (in thousands):

	Unsecured Term Note	Secured Term Note	Total
2003	$ 72	$ 1,341	$ 1,413
2004	72	1,341	1,413
2005	72	1,341	1,413
2006	72	1,341	1,413
2007	72	1,341	1,413
Thereafter	738	21,119	21,857
Total	$1,098	$27,824	$28,922

The variable rate on both term notes is equal to the Fund's prior-month yield on investments. The average interest rates during 2002 and 2001 were approximately 4.09% and 5.47%, respectively. At December 31, 2002 and 2001, the rates were 3.51% and 4.56%, respectively.

The NCUA Operating Fund leases certain office space and equipment under operating lease agreements that expire through 2007. Based on the allocation factor determined by the NCUA's Board, the Fund reimburses the NCUA Operating Fund approximately 62.00% of the total lease payments. The cost of services provided by the NCUA Operating Fund includes rental charges of approximately $625,500 and $654,500 for 2002 and 2001, respectively.

The NCUA Operating Fund's total future minimum lease payments on operating leases as of December 31, 2002, are as follows (in thousands):

2003	$ 828
2004	858
2005	346
2006	199
2007	183
Total	$2,414

9. LEASE COMMITMENTS

Description of Leasing Agreements—The Fund has entered into lease agreements with vendors for the lease of equipment that includes computers, laptops, and printers. The Fund leases computer equipment under capital lease agreements that expire through 2005.

A schedule of future minimum lease payments as of December 31, 2002, is as follows (in thousands):

2003	$ 162
2004	3
2005	2
Total	167
Less: Imputed interest	(2)
Present value of net minimum lease payments	$ 165

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:

	December 31, 2002		December 31, 2001	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Investments	$4,535,537	$4,627,939	$3,648,578	$3,752,438
Cash and cash equivalents	1,008,693	1,008,693	1,335,753	1,335,753
Accrued interest receivable	69,174	69,174	67,178	67,178
Capital assessment receivable	3,697	3,697		
Notes receivable—NCUA Operating Fund	28,922	28,922	30,335	30,335
Amounts due to insured shareholders of liquidated credit unions	6,228	6,228	6,092	6,092
Due to NCUA Operating Fund	670	670	1,723	1,723
Accounts payable	3	3	64	64
Lease obligation	165	165	793	793

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

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

13. SUBSEQUENT EVENTS

NCUA announced on January 29, 2003 a regional restructuring plan, previously approved by the Board on November 21, 2002. The restructuring plan will relocate the Region VI office in Concord, California, to Phoenix, Arizona and renumber it to Region V. The plan will also close the Region IV regional office in Chicago, Illinois. The process of relocating Region VI will begin immediately and be completed no later than December 2004. Region V, located in Austin, Texas, will be renumbered to become Region IV. Credit union supervision will be aligned with the five regions, and this alignment is scheduled to become effective as of January 1, 2004.

NCUA estimates that the cost to be incurred for the regional restructuring plan will be $7,466,000, which includes relocation costs of $6,016,000 and severance costs of $980,000. The majority of the costs are anticipated to be incurred during 2003 and 2004 by the NCUA Operating Fund. Based on the allocation factors approved by the NCUA Board, the NCUA Operating Fund will charge 62.00% of the total restructuring costs, or $4,629,000, to the Fund.

* * * * * *

National Credit Union Administration Central Liquidity Facility

Financial Statements for the Years Ended December 31, 2002 and 2001, and Independent Auditors' Reports

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

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INDEPENDENT AUDITORS' REPORT

Inspector General
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, 2002 and 2001, 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, 2002 and 2001, 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 28, 2003, on our tests of the National Credit Union Administration Central Liquidity Facility's compliance with certain provisions of laws, regulations, contracts, and grants and on 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 28, 2003

Deloitte
Touche
Tohmatsu

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

BALANCE SHEETS
DECEMBER 31, 2002 AND 2001
(Dollars in thousands)

ASSETS	2002	2001
ASSETS:		
Cash	$ 11	$ 13
Investments with U.S. Central Credit Union (Notes 5, 8, and 9)	1,081,362	979,922
Accrued interest receivable	5,042	5,095
TOTAL ASSETS	$ 1,086,415	$ 985,030

LIABILITIES AND MEMBERS' EQUITY

	2002	2001
LIABILITIES:		
Member deposits (Note 7)	$ 13,905	$ 16,817
Accounts payable and other liabilities	108	102
Total liabilities	14,013	16,919
MEMBERS' EQUITY:		
Capital stock—required (Note 7)	1,060,995	956,709
Retained earnings	11,407	11,402
Total members' equity	1,072,402	968,111
TOTAL LIABILITIES AND MEMBERS' EQUITY	$ 1,086,415	$ 985,030

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2002 AND 2001
(Dollars in thousands)

	2002	2001
REVENUE—Investment income	$21,965	$35,012
EXPENSES (Note 10):		
Operating expenses:		
Group agent service fee	2	2
Personnel services	124	110
Other services	40	37
Rent, communications, and utilities	10	8
Personnel benefits	25	23
Supplies and materials	2	2
Printing and reproduction	4	3
Total operating expenses	207	185
Interest—Federal Financing Bank notes		46
Interest—member deposits	169	212
Total expenses	376	443
EXCESS OF REVENUE OVER EXPENSES	$21,589	$34,569

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

STATEMENTS OF MEMBERS' EQUITY
YEARS ENDED DECEMBER 31, 2002 AND 2001
(Dollars in thousands)

	Capital Stock	Retained Earnings
BALANCE AT JANUARY 1, 2001	$ 892,175	$ 11,402
Issuance of required capital stock	69,600	
Redemption of required capital stock	(5,066)	
Dividends		(34,569)
Excess of revenue over expenses		34,569
BALANCE AT DECEMBER 31, 2001	956,709	11,402
Issuance of required capital stock	105,519	
Redemption of required capital stock	(1,233)	
Dividends		(21,584)
Excess of revenue over expenses		21,589
BALANCE AT DECEMBER 31, 2002	$ 1,060,995	$ 11,407

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2002 AND 2001
(Dollars in thousands)

	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of revenue over expenses	$ 21,589	$ 34,569
Adjustments to reconcile excess of revenue over expenses to net cash provided by operating activities:		
Decrease in accrued interest receivable	53	7,873
Increase (decrease) in accounts payable and other liabilities	6	(5)
Net cash provided by operating activities	21,648	42,437
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments—net	(101,440)	(60,413)
Net cash used in investing activities	(101,440)	(60,413)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Additions to member deposits	2,226	2,790
Issuance of required capital stock	105,519	69,600
Dividends	(21,584)	(34,569)
Withdrawal of member deposits	(5,138)	(14,780)
Redemption of required capital stock	(1,233)	(5,066)
Net cash provided by financing activities	79,790	17,975
NET DECREASE IN CASH	(2)	(1)
CASH, BEGINNING OF YEAR	13	14
CASH, END OF YEAR	$ 11	$ 13

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:
Interest paid during the years ended December 31, 2002 and 2001, was $-0- and $46, respectively.

See notes to financial statements.

1. ORGANIZATION AND PURPOSE

The National Credit Union Administration Central Liquidity Facility ("CLF") was created by the National Credit Union Central Liquidity Facility Act (the "Act"). 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.

***Loans and Allowance for Loan Losses*—**Loans, when made to members, are on a short-term or long-term basis. For all loans, the CLF may obtain a security interest in the assets of the borrower. In determining the allowance for loan losses, when applicable, 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. Amortized cost is the face value of the securities plus the unamortized premium or less the unamortized discount.

***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, when applicable, the carrying amounts approximate fair value.

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

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

3. GOVERNMENT REGULATIONS

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 limited by statute to twelve times the subscribed capital stock and surplus. However, there is a Congressional limitation of $1.5 billion on funds that are borrowed and then loaned out at any one point in time.

At December 31, 2002 and 2001, the CLF was in compliance with its borrowing authority.

4. LOANS TO MEMBERS

There were no loans or loan commitments outstanding at December 31, 2002 and 2001. The CLF can provide members with extended loan commitments.

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

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

	December 31,	
	2002	**2001**
U.S. Central Credit Union (see Note 8):		
Redeposit account	$1,081,362	$915,246
Share accounts		64,676
	$1,081,362	$979,922

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 mid-year spending bill (HR 1141) that authorized the

CLF to fully utilize its borrowing authority under the Federal Credit Union Act. 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 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 its corporate credit union members. At December 31, 2002 and 2001, $1,015,902,000 and $915,246,000, respectively, of the required portion of subscribed capital stock were purchased from the CLF by USC on behalf of its member credit unions. The CLF has 32 and 33 corporate credit union members as of December 31, 2002 and 2001, respectively.

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, 2002 and 2001, approximately $1,081,362,000 and $979,922,000, respectively, were invested in USC accounts at 1.85% and 2.06%, respective yields.

9. CONCENTRATION OF CREDIT RISK

At December 31, 2002 and 2001, the CLF has a concentration of credit risk for its investments on deposit with USC of approximately $1,081,362,000 and $979,922,000, respectively (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, 2002 and 2001, amounted to approximately $205,000 and $183,000, respectively.

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, 2002		December 31, 2001	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash	$ 11	$ 11	$ 13	$ 13
Investments	1,081,362	1,081,362	979,922	979,922
Accrued interest receivable	5,042	5,042	5,095	5,095
Member deposits	13,905	13,905	16,817	16,817
Accounts payable and other liabilities	108	108	102	102

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 on behalf of CLF. The agreement originally provided for a commitment amount of $20.7 billion. Subsequently, the agreement expired on September 30, 2002, and was extended through consecutive short-term revolving credit facility promissory notes. These promissory notes reduced the credit facility to $5 billion and expire yearly on the 31st of March. The current promissory note expires March 31, 2003.

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National Credit Union Administration Community Development Revolving Loan Fund

Financial Statements for the Years Ended December 31, 2002 and 2001, and Independent Auditors' Reports

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

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INDEPENDENT AUDITORS' REPORT

Inspector General
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, 2002 and 2001, 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, 2002 and 2001, 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 28, 2003, on our tests of the National Credit Union Administration Community Development Revolving Loan Fund's compliance with certain provisions of laws, regulations, contracts, and grants and on 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 28, 2003

Deloitte
Touche
Tohmatsu

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

BALANCE SHEETS
DECEMBER 31, 2002 AND 2001

ASSETS	2002	2001
Cash and cash equivalents (Note 2)	$ 5,496,705	$ 4,857,810
Loans—net of allowance (Note 4)	7,754,404	8,839,573
Interest receivable	40,087	56,353
TOTAL ASSETS	$13,291,196	$13,753,736

LIABILITIES AND FUND BALANCE

	2002	2001
LIABILITIES:		
Accrued technical assistance	$ 106,978	$ 196,400
Total liabilities	106,978	196,400
FUND BALANCE:		
Revolving fund capital (Note 3)	12,303,548	12,745,669
Accumulated earnings	880,670	811,667
Total fund balance	13,184,218	13,557,336
TOTAL LIABILITIES AND FUND BALANCE	$13,291,196	$13,753,736

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2002 AND 2001

	2002	2001
SUPPORT AND REVENUES:		
Interest on cash equivalents	$ 97,588	$ 64,431
Interest on loans	158,188	236,966
Appropriation revenue	442,121	248,531
Total	697,897	549,928
EXPENSES:		
Technical assistance	(542,067)	(313,770)
Provision for loan losses	(86,827)	(47,514)
Total	(628,894)	(361,284)
EXCESS OF SUPPORT AND REVENUES OVER EXPENSES	$ 69,003	$ 188,644

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

STATEMENTS OF CHANGES IN FUND BALANCE
YEARS ENDED DECEMBER 31, 2002 AND 2001

	2002	2001
FUND BALANCE, BEGINNING OF YEAR	$13,557,336	$11,619,223
Change in unexpended appropriations:		
Operating appropriations received (Note 3)		700,000
Appropriation revenue recognized (Note 3)	(442,121)	(248,531)
Appropriations—revolving fund capital (Note 3)		1,298,000
Excess of support and revenues over expenses	69,003	188,644
FUND BALANCE, END OF YEAR	$13,184,218	$13,557,336

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2002 AND 2001

	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of support and revenues over expenses	$ 69,003	$ 188,644
Adjustments to reconcile the excess of support and revenues over expenses to net cash (used in) provided by operating activities:		
Change in unexpended appropriations	(442,121)	451,469
Provision for loan losses	86,827	47,514
Changes in assets and liabilities:		
Decrease in interest receivable	16,266	26,647
(Decrease) increase in accrued technical assistance	(89,422)	92,029
Net cash (used in) provided by operating activities	(359,447)	806,303
CASH FLOWS FROM INVESTING ACTIVITIES:		
Loan principal repayments	3,717,342	3,951,898
Loan disbursements	(2,719,000)	(2,407,000)
Net cash provided by investing activities	998,342	1,544,898
CASH FLOWS FROM FINANCING ACTIVITIES:		
Appropriations received—revolving fund capital		1,298,000
Net cash provided by financing activities	-	1,298,000
NET INCREASE IN CASH AND CASH EQUIVALENTS	638,895	3,649,201
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	4,857,810	1,208,609
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 5,496,705	$ 4,857,810

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2002 AND 2001

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 2002 and 2001 were cash equivalents and are stated at cost which approximates fair value. Cash equivalents are highly liquid investments with original maturities of three months or less.

Allowance for Loan Losses—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, 2002 and 2001, there were no nonaccrual loans.

Salary and Operating Expenses—NCUA provides certain general and administrative support to the CDRLF, including office space, salaries, and certain supplies. The value of these contributed services is not charged to the CDRLF.

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

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

3. GOVERNMENT REGULATIONS

The CDRLF is subject to various Federal laws and regulations. Assistance, which includes lending and technical assistance, is limited by Congress to a total of the $12,303,548 appropriated for the CDRLF plus accumulated earnings. Included in this amount is $1,998,000 that was made available in 2001 in accordance with Public Law Nos. 107-73 and 106-377 for loans and technical assistance. Federally chartered and state-chartered credit unions may participate in the CDRLF's Community Loan Fund. Loans may only be made to low-income credit unions as defined by the NCUA.

NCUA Rules and Regulations section 705.7 permit the classification of the loan in the participating credit union's accounting records as either a note payable or a nonmember deposit. As a nonmember deposit, an amount not to exceed $100,000 per credit union is insured by the National Credit Union Share Insurance Fund ("NCUSIF"). The covered amount of loans recorded as nonmember deposits by participating credit unions insured by the NCUSIF totaled approximately $6,188,000 and $5,943,000 at December 31, 2002 and 2001, respectively. Under the CDRLF Loan Program, loans recorded in the credit union's accounting records as notes payable may be collateralized.

Loans are limited to a maximum amount of $300,000 per credit union. Loans issued between January 1, 1995, and December 31, 1998, carry a fixed interest rate of 3%; loans issued between January 1, 1999, and December 31, 2001, carry a fixed rate of 2%; and loans issued after January 1, 2002, carry a fixed rate of 1%. Interest and principal are repaid on a semiannual basis beginning six months and one year, respectively, after the initial distribution of the loan. The maximum term of each loan is five years. Participating credit unions are required to match the value of the loan within one year of the date of approval of the loan.

During the year ended December 31, 2001, appropriations for loans and technical assistance in the amount of $1,998,000 were received. Of this amount, $700,000 was designated to be used as operating appropriations for technical assistance and $1,298,000 was designated to be used as revolving fund capital. For the appropriations received, all monies do not expire and are not required to be returned.

Activities by each appropriation, from inception	Public Law No. 107-73	Public Law No. 106-377	Total
Operating appropriation received	$ 350,000	$ 350,000	$ 700,000
Appropriation revenue recognized	(340,652)	(350,000)	(690,652)
Balance, December 31, 2002	$ 9,348	$ -	$ 9,348

	2002	2001
Unexpended appropriations:		
Balance, beginning of the year	$ 451,469	$ -
Operational appropriations received		700,000
Appropriation revenue recognized	(442,121)	(248,531)
Balance, end of year	$ 9,348	$ 451,469
Revolving fund capital:		
Balance, beginning of the year	$12,745,669	$10,996,200
Appropriations—revolving fund capital		1,298,000
Change in unexpended appropriations	(442,121)	451,469
Balance, end of year	$12,303,548	$12,745,669

4. LOANS

Loans outstanding at December 31, 2002 and 2001, are scheduled to be repaid during the following subsequent years:

	2002	2001
Year 1	$ 2,213,135	$ 2,605,900
Year 2	2,067,690	2,125,100
Year 3	2,008,000	1,492,100
Year 4	951,400	1,353,800
Year 5	814,030	1,475,697
	8,054,255	9,052,597
Less: Allowance for loan losses	(299,851)	(213,024)
Net loans outstanding	$ 7,754,404	$ 8,839,573

Changes in the allowance for loan losses are summarized below:

	2002	2001
Balance, beginning of year	$ 213,024	$ 200,719
Provision for loan losses	86,827	47,514
Loans written off		(35,209)
Balance, end of year	$ 299,851	$ 213,024

5. CONCENTRATION OF CREDIT RISK

At December 31, 2002 and 2001, 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*—**Such items are recorded at book values, which approximate the respective fair values.

***Loans*—**The fair value is estimated by discounting projected future cash flows using current market interest rates. For purposes of this calculation, the discount rate used was the prime interest rate plus two percent (6.25% at December 31, 2002 and 6.75% at December 31, 2001).

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

	December 31, 2002		December 31, 2001	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:				
Cash and cash equivalents	$ 5,496,705	$ 5,496,705	$ 4,857,810	$ 4,857,810
Interest receivable	$ 40,087	$ 40,087	$ 56,353	$ 56,353
Loans	$ 8,054,225	$ 7,681,555	$ 9,052,597	$ 8,680,264
Allowance for loan losses	(299,851)	(299,851)	(213,024)	(213,024)
Loans, net of allowance	$ 7,754,404	$ 7,381,704	$ 8,839,573	$ 8,467,240
Liabilities:				
Accrued technical assistance	$ 106,978	$ 106,978	$ 196,400	$ 196,400

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

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