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, 1999

Audited Financial Statements	Audit Report Number
NCUA Operating Fund	OIG-00-01
National Credit Union Share Insurance Fund	OIG-00-02
Central Liquidity Facility	OIG-00-03
Community Development Revolving Loan Program	OIG-00-04

March 31, 2000

Frank Thomas

Frank Thomas
Inspector General

NATIONAL CREDIT UNION ADMINISTRATION

AUDIT OF THE 1999 FINANCIAL STATEMENTS

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EXECUTIVE SUMMARY

PURPOSE AND SCOPE The National Credit Union Administration (NCUA) Office of Inspector General contracted with the independent public accounting firm of Deloitte & Touche to perform the financial statement audits of the NCUA Operating Fund, the Share Insurance Fund, the Central Liquidity Facility, and the Community Development Revolving Loan Program, for the year ended December 31, 1999.

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

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

FINANCIAL STATEMENT CONTRACT Deloitte & Touche and their subcontractors, Brown & Company contracted with the Inspector General in May 1996 to perform the financial statement audits mentioned above. The contract was for 1996, with four option years. The Assistant Inspector General for Audits is the contracting officer's technical representative for this contract.

AUDIT RESULTS Deloitte & Touche expressed unqualified opinions, stating that the financial statements present fairly, in all material respects, the financial position of the NCUA Operating Fund, the Share Insurance Fund, the Central Liquidity Facility, and the Community Development Revolving Loan Program, at December 31, 1999, and the results of operations for the year then ended.

Although Deloitte & Touche does not express an overall opinion of the Funds' compliance with laws and regulations, their testing of compliance did not disclose any significant deviations.

Deloitte & Touche did not find any matters considered to be *material* weaknesses in their review of the Funds' internal control structures pertinent to financial reporting. However, during the performance of the audit, we developed the following recommendations related to internal control over financial reporting and certain observations and recommendations on other accounting, administrative, and operating matters.

OBSERVATIONS AND RECOMMENDATIONS

CHANGE CONTROL PROCEDURES

Observation:

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

Recommendation:

We recommend that NCUA formalize their existing process which includes change requests, approvals, assignment of tasks to staff, testing, and maintaining documentation of changes.

ADMINISTRATION AND SECURITY PROCEDURES

Observation:

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

Recommendation:

We recommend that NCUA develop and implement procedures for administering and maintaining its network and SAP environments. These procedures should address:

- Granting and removing access privileges
- Administrator/Super-user privileges
- Data Ownership
- Server backups
- Batch Process Administration
- Naming conventions for user accounts
- Implementation of Anti-virus Software
- Remote Access Configuration and Privileges

SAP SECURITY WEAKNESSES

Observation:

We examined several security aspects of the SAP computing environment, which is the primary financial application for NCUA. We noted the following detailed security concerns:

- Three SAP user accounts had inappropriate access privileges, which permit access to all SAP functionality and processes;
- Three SAP System Parameter values were inconsistent with recommended SAP security practices;
- The SAP "SU01-SU03" Transaction codes for performing critical security administration functions were granted to users in the Finance and Human Resources Departments that had limited system administration job responsibilities;
- Several users were identified with unrestricted access to critical and non-critical ABAP programs using transactions "SE38/SA38"; and
- Three system configuration tables were not being logged for unauthorized or inappropriate changes.

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

Recommendation:

We recommend that NCUA review SAP user access and security parameters to ensure that SAP data and system processes are adequately secured and controlled. Specifically, this review should include super-user access privileges, system parameter values, system administration access, and SAP program and table access. This observation was carried forward from the prior year.

NETWORK CONFIGURATION

Observation:

Single points of failure have not been eliminated in the design and configuration of the NCUA network. If the frame relay service, which provides the only means of network connectivity to NCUA regional offices, becomes unavailable, there are no alternate network paths or connections between the NCUA headquarters and the regional offices. Without secondary connectivity the regional offices will not be able to access critical application systems and data that reside on the servers in Alexandria. Without redundant connectivity to remote network locations, organizations become vulnerable to single points of failure in their network. Any failure on a network designed in this manner results in centralized systems and data being inaccessible to remote network users and may limit the organization's ability to perform critical business processes.

Recommendation:

As part of the organization's upcoming network redesign effort, NCUA should evaluate the feasibility of implementing an alternate network path between the systems at the Alexandria headquarters and users in the NCUA regional offices.

FIXED ASSETS

Observation:

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

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

Recommendation:

We understand that revisions to the fixed asset inventory system are in process that will facilitate the reconciliation of the fixed assets inventory information with the amounts recorded in the general ledger. We recommend that NCUA update its Property Management Procedures accordingly, including the procedures for periodic physical inventory counts and the related reconciliations.

ACCRUALS

Observation:

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

Recommendation:

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

CURRENT STATUS OF PRIOR-YEAR COMMENTS

BUSINESS CONTINUITY PLAN

We reviewed the Business Continuity Plan for NCUA. During this review, we noted that the Octel Voice Systems have not been addressed.

Status:

Corroborative discussion with Security/Operations and review of documentation revealed that NCUA revised the Business Continuity Plan to address restoration of the voice mail system.

PRODUCTION DATA ACCESS

Programmers have update access to the production data and system controls.

Status:

Windows NT administrator privileges appeared to be limited to only Office of Chief Information Officer (OCIO), formerly the Office of Technology and Information Services, personnel with network administration and support, hardware support, or help desk responsibilities. No programmers were identified with administrator privileges.

FIREWALL MONITORING

Although NCUA maintains a firewall security log, monitoring of the firewall security log is not taking place.

Status:

An online review of the firewall activity log is being performed by the Security Officer on a daily basis. Any exceptions or questionable activity is brought to the attention of the Network Administrator and the Director of Systems and Customer Service. Formal procedures describing this review process have been documented in the Information Technology Security Procedures. These procedures appear adequate to detect unauthorized access attempts through the network firewall.

ACCOUNT SECURITY

During testing, we noted that NT system security functions do not adequately secure the system environment. We determined that the NT servers' user permissions and rights were set to the default settings, which allow for actions to be taken without being logged. In addition, password and account lockout policies are not in effect allowing users to login without a password and with several failed attempts. We also noticed that some of the global account audit settings may not be adequate for this environment. Several inactive user accounts may still be on the system, although the employees are no longer employed by NCUA. No procedures are in place to ensure the consistency of user logon ID's across the NT system.

Status:

Password restrictions were set requiring minimum password length to be six characters and requiring passwords to be unique for every four password changes. Windows NT logging functionality was also enabled. These settings appear to be appropriate to provide adequate security and are consistent with established computer security practices. However, password expiration periods and account lockouts were not required for NT accounts. No inactive user accounts were noted during our current procedures.

After last year's audit, the administrator set the password expiration period to 120 days and the account lockout to three failed login attempts, which is consistent with NCUA's new security policy. However, the rollout of the WIN2000-based computers to all NCUA employees created user account lockouts due to invalid login attempts. Login conflicts resulted from having to maintain both the Active Directory and NT Registry, which are the security structures for WIN2000 and Windows NT respectively, until all users are issued WIN2000 computers. These conflicts resulted in numerous user lockouts. As a result, the password expiration and account lockout settings were disabled until the rollout is completed in May 2000 or until Microsoft can help resolve the issue. When the issue is resolved or the rollout is complete, the settings will be returned to those values documented in the security policies and procedures. The rollout should also address the issue regarding inconsistent naming conventions for logon IDs.

PHYSICAL SECURITY

During testing, we observed cardboard boxes scattered on data center floor, and those boxes were blocking an emergency exit. We also noticed the existence of such boxes within some of the telephone/hub rooms. In addition, we noted that several of the hub rooms were not kept cool.

Status:

The computer room appeared to be neat and orderly based on walkthrough and observation. In addition, all computing equipment appeared to be maintained in areas that were properly temperature-controlled.

SAP SECURITY AND ADMINISTRATION POLICIES

NCUA does not have a formal set of Administration policies and procedures for the SAP application and at present the current security settings are not adequately set to secure the application.

Status:

Security standards have been defined for system security parameters on all NCUA systems, including SAP. These standards include password restrictions, account lockouts, userid/passwords for all logins, general access controls, and granting and terminating access. However, NCUA still does not have formal procedures that document the administration of the SAP application. In addition, we noted the following detailed security concerns:

- Three SAP user accounts had inappropriate access privileges, which permit access to all SAP functionality and processes;
- Three SAP System Parameter values were inconsistent with recommended SAP security practices;
- The SAP "SU01-SU03" Transaction codes for performing critical security administration functions were granted to users in the Finance and Human Resources Departments that had limited system administration job responsibilities;
- Several users were identified with unrestricted access to critical and non-critical ABAP programs using transactions "SE38/SA38";
- Three system configuration tables were not being logged for unauthorized or inappropriate changes.

If users are granted access beyond the minimum level necessary to perform their job functions, segregation of duties may be compromised. In addition, this could result in unauthorized or invalid transactions or in a loss of data, assets or other resources. We recommend that NCUA review SAP user access and security parameters to ensure that SAP data and system processes are adequately secured and controlled. Specifically, this review should include super-user access privileges, system parameter values, system administration access, and SAP program and table access. This observation was carried forward to the current year.

During 1998 we noted that the BAD Password table (Table "USR40") was not populated with user passwords to prevent users from utilizing an easily guessed password. Corrections were made in 1999.

SYSTEMS DEVELOPMENT LIFE CYCLE

NCUA OCIO management maintains informal SDLC procedures and is in the process of formalizing these procedures.

Status:

Corroborative discussion with the Director of Product Services and review of documentation revealed that NCUA management has drafted structured SDLC procedures based on the Software Engineering Institute's Capability Maturity Model and tailored to NCUA's business environment. The initial draft addresses project requirements, planning, tracking, oversight, quality assurance, and configuration management. This SDLC model appears to provide an adequate development methodology to ensure the properly controlled acquisition, development and implementation of new systems or changes to existing systems.

ADEQUATE OCIO RESOURCES

OCIO has several vacancies within this department. For example, an outside consultant was hired to perform security work for NCUA.

Status:

The staffing level of the OCIO group appears adequate to support the NCUA end-users and administrative systems. There were not an excessive number of vacancies on the organization chart. In addition, some SAP expertise is being brought in-house instead of primarily relying on outside consultants, which has been the case in the past.

DATA CENTER ACCESS

We noted that several individuals, approximately 20% of local personnel, have access to the data center although this access is not necessary.

Status:

All individuals now on the access list for the data center are OCIO employees with job responsibilities requiring this access or facilities maintenance personnel.

VIRUS PROTECTION

We noted that not all workstations are running the most recent version of the anti-virus software containing the most recent virus definition files.

Status:

Updates of the Command anti-virus software are downloaded from the vendor's website as they become available. Servers are updated immediately by the network administration staff. The updates are then stored on a public network directory accessible by all users. Email messages are then sent out notifying all users that the updates are available and instructing them on how to implement the updates.

SOFTWARE LICENSES

A computer policy has been developed to address the issue of software piracy; however, this policy is not being actively monitored. During our testing we did not find any unlicensed software.

Status:

No policies and procedures currently exist to prohibit unauthorized use of or installation of non-licensed software on employee personal computers. However, NCUA developed two plans to address the issue. For the short term, all administrative privileges allowing users to install software will be removed on the new laptop computers currently being rolled out to all users. This will limit installed software to only licensed versions installed by OCIO. In the future, NCUA plans to implement software to facilitate software inventories of networked personal computers.

NETWORK CONFIGURATION: TWO-WAY TRUST RELATIONSHIPS

NCUA's network contains one primary domain controller (PDC), HQNT, and eight resource domains. There are two-way trusts between these domains.

Status:

The two-way trust relationship remains between the HQNT domain, which includes all users and servers at the Alexandria Headquarters, and the Regional office domain, which includes the servers at the regional offices. However, the trust relationship was designed in this manner to permit some regional office PDC servers to perform their own user authentication if they lost connectivity with the PDC in the HQNT domain. The current domain structure and trust relationships are currently under evaluation in conjunction with the migration to the WIN2000 operating system and the upcoming network redesign.

AUDIT REPORT FOLLOW-UP

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

NATIONAL CREDIT UNION ADMINISTRATION OPERATING FUND

Financial Statements for the Years Ended December 31, 1999 and 1998, and Independent Auditors' Reports

INDEPENDENT AUDITORS' REPORT

To the Inspector General of the
National Credit Union Administration:

We have audited the accompanying balance sheets of the National Credit Union Administration Operating Fund (the Fund) as of December 31, 1999 and 1998, 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 generally accepted auditing standards 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, 1999 and 1998, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2000, on our tests of the National Credit Union Administration Operating Fund's compliance with certain provisions of laws, regulations, contracts and grants, and our consideration of its internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

February 25, 2000

NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND

BALANCE SHEETS
DECEMBER 31, 1999 AND 1998
(Dollars in Thousands)

ASSETS	1999	1998
Cash and cash equivalents	$12,695	$12,736
Due from National Credit Union Share Insurance Fund (Note 4)	1,618	2,129
Employee advances	816	865
Other accounts receivable	258	113
Prepaid expenses	105	164
Fixed assets - net of accumulated depreciation and amortization (Note 3)	38,704	41,233
Employee residences held for resale	452	-
TOTAL ASSETS	$54,648	$57,240

LIABILITIES AND FUND BALANCE

LIABILITIES:		
Accounts payable	$ 4,109	$ 4,064
Accrued wages and benefits	4,390	4,864
Accrued annual leave	5,860	4,952
Accrued employee travel	828	735
Notes payable to National Credit Union Share Insurance Fund (Note 4)	33,161	34,574
Total liabilities	48,348	49,189
COMMITMENTS AND CONTINGENCIES (Notes 5, 8, and 9)		
FUND BALANCE	6,300	8,051
TOTAL LIABILITIES AND FUND BALANCE	$54,648	$57,240

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE
YEARS ENDED DECEMBER 31, 1999 AND 1998
(Dollars in Thousands)

	1999	1998
REVENUES:		
Operating fees	$ 53,884	$ 50,591
Interest	1,426	1,396
Other	258	262
Total revenues	55,568	52,249
EXPENSES (Note 4):		
Employee wages and benefits	42,674	35,853
Travel	5,402	4,958
Rent, communications, and utilities	1,839	1,723
Contracted services	2,096	2,532
Other	5,308	5,227
Total expenses	57,319	50,293
(DEFICIENCY) EXCESS OF REVENUES OVER EXPENSES	(1,751)	1,956
FUND BALANCE, BEGINNING OF YEAR	8,051	6,095
FUND BALANCE, END OF YEAR	$ 6,300	$ 8,051

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1999 AND 1998
(Dollars in Thousands)

	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES:		
(Deficiency) excess of revenues over expenses	$ (1,751)	$ 1,956
Adjustments to reconcile (deficiency) excess of revenues over expenses to cash provided by operating activities:		
Depreciation and amortization	3,197	3,205
Loss on disposal of employee residences held for resale	77	162
Miscellaneous allowances	10	-
(Increase) decrease in assets:		
Due from National Credit Union Share Insurance Fund	511	(2,015)
Employee advances	49	(159)
Other accounts receivable	(145)	(19)
Prepaid expenses	59	(51)
(Decrease) increase in liabilities:		
Accounts payable	45	1,441
Accrued wages and benefits	(474)	2,775
Accrued annual leave	908	60
Accrued employee travel	93	47
Net cash provided by operating activities	2,579	7,402
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of fixed assets and employee residences held for resale	(1,884)	(2,016)
Proceeds from sale of employee residences held for resale	677	1,214
Net cash used in investing activities	(1,207)	(802)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of notes payable	(1,413)	(1,413)
Net cash used in financing activities	(1,413)	(1,413)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(41)	5,187
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	12,736	7,549
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 12,695	$ 12,736

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 1999 AND 1998

1. ORGANIZATION AND PURPOSE

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

2. SIGNIFICANT ACCOUNTING POLICIES

Cash Equivalents - The Federal Credit Union Act permits the Fund to make investments in United States Government securities or securities guaranteed as to both principal and interest by the United States Government. Cash equivalents are highly liquid investments with original maturities of three months or less. All investments in 1999 and 1998 were cash equivalents and are stated at cost, which approximates market.

Depreciation and Amortization - Building, furniture and equipment, 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 and 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 and equipment and leasehold improvements.

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

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

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

> Cash and cash equivalents, receivable from National Credit Union Share Insurance Fund (NCUSIF), employee advances, other accounts receivable, accounts and notes payable to NCUSIF, and other accounts payable are recorded at book values, which approximate the respective fair market values.

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

3. FIXED ASSETS

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

	1999	1998
Office building and land	$ 42,246	$ 42,229
Furniture and equipment	22,431	21,780
Total	64,677	64,009
Less: Accumulated depreciation and amortization	25,973	22,776
Fixed assets, net	$ 38,704	$ 41,233

4. TRANSACTIONS WITH NCUSIF

Certain administrative services are provided by the Fund to NCUSIF. The Fund charges NCUSIF for these services based upon an annual allocation factor approved by the NCUA Board derived from an estimate of actual usage. The allocation factor was 50% to NCUSIF and to the Fund for 1998 and 1999. The cost of the services allocated to NCUSIF, which totaled approximately $57,319,000 and $50,293,000 for 1999 and 1998, respectively, are 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 $74,000 for 1999 and $81,000 for 1998. The outstanding principal balance at December 31, 1999 and 1998, was $1,314,000 and $1,386,000, 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 $1,788,000 and $1,926,000 for 1999 and 1998, respectively. The note payable balance at December 31, 1999, was approximately $31,847,000.

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

	Unsecured Term Note	Secured Term Note	Total
2000	$ 72	$ 1,341	$ 1,413
2001	72	1,341	1,413
2002	72	1,341	1,413
2003	72	1,341	1,413
2004	72	1,341	1,413
Thereafter	954	25,142	26,096
	$ 1,314	$ 31,847	$ 33,161

The variable rate on both notes is equal to NCUSIF's prior-month yield on investments. The average interest rates during 1999 and 1998 were 5.52% and 5.70%, respectively. The interest rate at December 31, 1999, was 5.57%.

5. COMMITMENTS

The Fund leases office space under lease agreements that expire through 2004. Office rental charges amounted to approximately $888,000 and $976,000 of which approximately $444,000 and $488,000 was reimbursed by NCUSIF for 1999 and 1998, respectively. In addition, the Fund leases office equipment under operating leases with lease terms of less than one year.

The future minimum lease payments as of December 31, 1999, are as follows (in thousands):

	Operating Leases
2000	$ 813
2001	832
2002	850
2003	524
2004	453
Total	$ 3,472

Based on the allocation factor approved by the NCUA Board for 1999, NCUSIF will reimburse the Fund for approximately 50% of the future lease payments.

6. RETIREMENT PLAN

The employees of the Fund are participants in the Civil Service Retirement and Disability Fund, which includes the Federal Employees' Retirement System (FERS). Both plans are defined benefit retirement plans covering all of the employees of the Fund. FERS is comprised of a Social Security Benefits Plan, a Basic Benefits Plan, and a Savings Plan. Contributions to the plans are based on a percentage of employees' gross pay. Under the Savings Plan, employees can also elect additional contributions between 1% and 10% of their gross pay, and the Fund will match up to 5% of the employees' gross pay. In 1999 and 1998, the Fund's contributions to the plans were approximately $8,304,000 and $6,863,000, respectively, of which approximately $4,152,000 and $3,432,000 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, 1999		December 31, 1998	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 12,695	$ 12,695	$ 12,736	$ 12,736
Due from NCUSIF	1,618	1,618	2,129	2,129
Employee advances	816	816	865	865
Other accounts receivable	258	258	113	113
Accounts payable	4,109	4,109	4,064	4,064
Notes payable to NCUSIF	33,161	33,161	34,574	34,574

8. CONTINGENCIES

Field of Membership Litigation - Four North Carolina Banks and the American Bankers Association (ABA) have challenged NCUA's approval of charter amendments granted to AT&T Family Federal Credit Union (FCU). The banks challenged amendments that allowed select employee groups that were unrelated to the original sponsor to join the FCU. Their claim is that the amendments violate the common bond requirements of the FCU Act.

In First National Bank & Trust Co., *et al.* v. National Credit Union Administration, the District Court concluded that NCUA's select employee group policy, which permitted more than one distinct employee group to exist in a single credit union, each with its own common bond, was a reasonable interpretation of the FCU Act. The banks appealed. On July 30, 1996, the U.S. Court of Appeals for the D.C. Circuit issued an opinion reversing the District Court. The Court concluded that all groups in a credit union must share a single common bond.

On remand to the District Court, the plaintiffs sought a nationwide injunction barring all federal credit unions from adding select employee groups that did not share a single common bond or adding new members to select employee groups already within their field of membership. NCUA objected arguing that this relief went far beyond what was sought in the AT&T case. The District Court then permitted the filing of a new lawsuit, ABA *et al.* v. NCUA *et al.*, which for the first time directly challenged NCUA's multiple group policy nationwide. The Court then issued a nationwide injunction barring NCUA's group policy nationwide and prohibiting all federal credit unions from adding new select employee groups or new members to existing select employee groups.

On December 24, 1996, the Court of Appeals issued a partial stay whereby credit unions were allowed to admit new members to existing select employee groups, but were still prevented from adding new groups. On February 24, 1997, the Supreme Court agreed to hear the case. On February 25, 1998, the Supreme Court issued a decision holding that banks do have standing to challenge NCUA's interpretation of Section 109 of the FCU Act, and that NCUA's interpretation of the section was contrary to the unambiguous intent of Congress. However, in August 1998, Congress passed the Credit Union Membership Access Act (CUMAA), amending the FCU Act in favor of NCUA. The CUMAA allowed federal credit unions to retain their then-existing members and groups and to charter multiple common bond credit unions. CUMAA also authorized the chartering by NCUA of multiple common bond credit unions.

On December 17, 1998, NCUA's Board issued a final rule implementing the CUMAA. On January 8, 1999, the ABA filed a new lawsuit, ABA v. NCUA, which challenged this rule on the premise that the rule violates the FCU Act, as modified by the CUMAA. The compliant seeks a declaratory judgment to that effect, and a preliminary injunction setting aside any field of membership applications based upon the NCUA's final rule implementing the CUMAA. On March 10, 1999, the ABA's request for a preliminary injunction was denied. On April 1, 1999, the ABA filed its First Amended Compliant. NCUA has filed a partial motion to dismiss that is still pending.

In the opinion of management, the ultimate resolution of these matters will not be material to NCUA's financial position.

Office of Personnel Management Action - In September 1997, the U.S. Office of Personnel Management (OPM) transmitted to NCUA a report entitled "Report of a Delegated Examining Oversight Review, National Credit Union Administration," dated June 16-20, 1997 (the OPM Report). The OPM Report concluded that NCUA had violated merit systems principles and committed prohibited personnel practices. As a result of the OPM Report, NCUA lost its hiring authority and was required to undertake certain remedial actions with respect to its personnel practices. During 1998, NCUA took all corrective actions required by OPM and, on July 31, 1998, OPM returned NCUA's appointing authority.

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The resolution of these matters may result in claims against NCUA, as well as additional costs related to the remedial personnel actions required. In the opinion of management, the ultimate resolution of these matters will not be material to NCUA's financial position.

In one personnel action, NCUA reached a settlement subsequent to December 31, 1999, whereby it will reimburse certain legal fees and pay certain retirement benefits to a former employee. The estimated amount of the settlement, $361,000, has been recorded as of December 31, 1999.

Other Matters - In addition, NCUA is currently party to a number of other disputes which 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. COMMITMENTS

NCUA has signed agreements for the lease of certain computer equipment beginning in 2000. The aggregate three-year commitment is approximately $7.4 million.

* * * * * *

NATIONAL CREDIT UNION SHARE INSURANCE FUND

Financial Statements for the Years Ended
December 31, 1999 and 1998, and
Independent Auditors' Reports

INDEPENDENT AUDITORS' REPORT

To the Inspector General of the
National Credit Union Administration:

We have audited the accompanying balance sheets of the National Credit Union Share Insurance Fund as of December 31, 1999 and 1998, 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 generally accepted auditing standards 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, 1999 and 1998, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards,* we have also issued our report dated February 25, 2000, 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 25, 2000

NATIONAL CREDIT UNION SHARE INSURANCE FUND

BALANCE SHEETS
DECEMBER 31, 1999 AND 1998
(Dollars in Thousands)

ASSETS	1999	1998
Investments (Note 5)	$2,487,361	$2,827,099
Cash and cash equivalents	1,679,975	981,230
Accrued interest receivable	38,814	40,071
Assets acquired in assistance to insured credit unions	9,943	14,253
Capital notes advanced to insured credit unions	325	1,466
Notes receivable - National Credit Union Administration Operating Fund (Note 8)	33,161	34,574
Other notes receivable	1,920	947
TOTAL ASSETS	$4,251,499	$3,899,640

LIABILITIES AND FUND BALANCE

LIABILITIES:		
Estimated losses from supervised credit unions (Note 3)	$ 69,845	$ 78,626
Estimated losses from asset and merger guarantees (Note 3)	875	42
Amounts due to insured shareholders of liquidated credit unions	8,934	7,612
Due to National Credit Union Administration Operating Fund (Note 8)	1,618	2,129
Accounts payable	49	554
Total liabilities	81,321	88,963
COMMITMENTS AND CONTINGENCIES (Notes 3, 8, 10, 11, and 12)		
FUND BALANCE:		
Insured credit unions' accumulated contributions	3,215,634	2,938,503
Insurance fund balance	954,544	872,174
Total fund balance	4,170,178	3,810,677
TOTAL LIABILITIES AND FUND BALANCE	$4,251,499	$3,899,640

See notes to financial statements.

NATIONAL CREDIT UNION SHARE INSURANCE FUND

STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 1999 AND 1998
(Dollars in Thousands)

	1999	1998
REVENUES:		
Interest	$ 227,281	$ 217,965
Other	1,850	2,033
Total revenues	229,131	219,998
EXPENSES (Note 8):		
Administrative expenses (Note 8):		
Employee wages and benefits	42,673	35,852
Travel	5,402	4,958
Rent, communications, and utilities	1,839	1,723
Contracted services	2,097	2,532
Other	6,381	6,006
Total expenses	58,392	51,071
EXCESS OF REVENUES OVER EXPENSES	$ 170,739	$ 168,927

See notes to financial statements.

NATIONAL CREDIT UNION SHARE INSURANCE FUND

STATEMENTS OF FUND BALANCE
YEARS ENDED DECEMBER 31, 1999 AND 1998
(Dollars in Thousands)

	Insured Credit Unions' Accumulated Contributions	Insurance Fund Balance
BALANCE AT JANUARY 1, 1998	$2,772,896	$ 820,790
Contributions from insured credit unions	165,607	-
Excess of revenues over expenses	-	168,927
Dividends to insured credit unions	-	(117,543)
BALANCE AT DECEMBER 31, 1998	2,938,503	872,174
Contributions from insured credit unions	277,131	-
Excess of revenues over expenses	-	170,739
Dividends to insured credit unions	-	(88,369)
BALANCE AT DECEMBER 31, 1999	$3,215,634	$ 954,544

See notes to financial statements.

NATIONAL CREDIT UNION SHARE INSURANCE FUND

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1999 AND 1998
(Dollars in Thousands)

	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of revenues over expenses	$ 170,739	$ 168,927
Adjustments to reconcile excess of revenues over expenses to cash provided by operating activities:		
Receipts (payments) relating to losses from supervised credit unions and assets and merger guarantees - net	(7,948)	(2,364)
(Increase) decrease in assets:		
Accrued interest receivable	1,257	(2,268)
Assets acquired from credit unions, net	4,310	6,883
Capital notes advanced to credit unions - net	1,141	(255)
Other notes receivable	(973)	(493)
(Decrease) increase in liabilities:		
Amounts due to National Credit Union Administration Operating Fund	(511)	2,015
Amounts due to insured shareholders of liquidated credit unions	1,322	(12,536)
Accounts payable	(505)	60
Net cash provided by operating activities	168,832	159,969
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments, net	339,738	298,822
Collections on note receivable - National Credit Union Administration Operating Fund	1,413	1,413
Net cash provided by investing activities	341,151	300,235
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions from insured credit unions	277,131	165,607
Dividends to insured credit unions	(88,369)	(117,543)
Net cash provided by financing activities	188,762	48,064
NET INCREASE IN CASH AND CASH EQUIVALENTS	698,745	508,268
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	981,230	472,962
CASH AND CASH EQUIVALENTS, END OF YEAR	$1,679,975	$ 981,230

See notes to financial statements.

NATIONAL CREDIT UNION SHARE INSURANCE FUND

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 1999 AND 1998

1. ORGANIZATION AND PURPOSE

The National Credit Union Share Insurance Fund (the Fund) was created by the Public Law 91-468 (Title II of the Federal Credit Union Act), which was amended in 1984 by Public Law 98-369 as discussed in Note 4. The Fund was established as a revolving fund in the United States Treasury under the management of the National Credit Union Administration (NCUA) Board for the purpose of insuring member share deposits in all federal credit unions and in qualifying state credit unions that request insurance. The maximum amount of insurance is $100,000 per shareholder account.

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

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

Assets Acquired from Credit Unions - The Fund acquires the assets of liquidating credit unions pending their ultimate disposition. To assist in the merger of credit unions, the Fund may purchase certain credit union assets. In addition, the Fund may provide cash assistance by acquiring nonperforming assets of a credit union experiencing financial difficulty. These acquired assets are maintained by the Asset Management and Assistance Center in Austin, Texas, and are recorded by the Fund at their estimated net realizable value.

Premium Revenue - The Fund may assess each insured credit union a regular annual premium of 1/12 of 1% of its member share deposits (insured member share deposits in the case of corporate credit unions) outstanding as of December 31st of the preceding insurance year. The NCUA Board waived the 1999 and 1998 share insurance premiums.

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

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

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

b. *Investments* - The fair value for investments is the quoted market value.

c. *Capital Notes and Other Notes Receivable* - It is not practicable to estimate the fair value of these assets as there is no secondary market, and the Fund has the ability and the intention to hold these notes to maturity.

d. *Other* - Accrued interest receivable, notes receivable from NCUA Operating Fund, payable to NCUA Operating Fund, 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 generally accepted accounting principles 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. 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, 1999, is $337 billion, which includes natural person and corporate credit unions. The total net reserves for identified and anticipated losses from supervised credit unions' failures is $71 million at December 31, 1999. Should there be no recoveries provided during the resolution process, possible additional reserves for $28 million would be required.

In exercising its supervisory function, the Fund will, at times, extend guarantees of assets (primarily loans) to third-party purchasers or to credit unions to facilitate mergers. Such guarantees totaled approximately $1,281,000 and $556,000 at December 31, 1999 and 1998, respectively. The estimated losses from asset and merger guarantees are determined by management on a case-by-case evaluation.

In addition, the Fund guarantees loans made by the NCUA's Central Liquidity Facility (CLF). Total line-of-credit guarantees of credit unions at December 31, 1999 and 1998, are approximately $6,085,000 and $25,311,000, respectively. The total balances outstanding under these line-of-credit guarantees at December 31, 1999 and 1998, are approximately $200,000 and $384,000, respectively.

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

	Year Ended December 31,	
	1999	**1998**
BEGINNING BALANCE	$78,668	$ 81,032
Insurance losses	(14,324)	(5,139)
Recoveries	6,376	2,775
ENDING BALANCE	$70,720	$ 78,668

4. FUND CAPITALIZATION

Title VIII of Public Law 98-369, effective July 14, 1984, provided for the capitalization of the Fund through the contribution by each insured credit union of an amount equal to 1% of the credit union's insured shares to be paid initially by January 21, 1985, and to be adjusted annually thereafter. The annual adjustment of the contribution is based on member share deposits outstanding as of December 31st of the preceding year and is billed on a calendar year basis. 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 law requires that, upon receipt of the 1% contribution, the total fund balance must be maintained at a normal operating level as determined by the NCUA Board. The NCUA Board has determined this level to range from 1.25% to 1.30% of insured shares. The level at both December 31, 1999 and 1998, was 1.30%. Total insured shares at December 31, 1999 and 1998, were $337 billion and $322 billion, respectively.

The NCUA Board declared and paid dividends of approximately $88,370,000 and $117,543,000 during 1999 and 1998, respectively.

5. 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, 1999				
	Yield to Maturity at Market	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. TREASURY SECURITIES:					
Maturities up to one year	5.98 %	$ 998,667	$ 489	$ -	$ 999,156
Maturities after one year through five years	6.42 %	1,488,694	-	(16,882)	1,471,812
Total		$2,487,361	$ 489	$ (16,882)	$2,470,968

	December 31, 1998				
	Yield to Maturity at Market	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. TREASURY SECURITIES:					
Maturities up to one year	5.98 %	$1,528,491	$10,899	$ (15)	$1,539,375
Maturities after one year through five years	6.11 %	1,298,608	29,361	-	1,327,969
Total		$2,827,099	$40,260	$ (15)	$2,867,344

Total investment purchases during both 1999 and 1998 were approximately $1.1 billion. Investment maturities during 1999 and 1998 were approximately $1.5 billion and $1.4 million, respectively. The Fund has the capability and management has the intention to hold all investments held at December 31, 1999 and 1998, to maturity. There were no investment sales during 1999 and 1998.

6. OTHER ASSETS

Other assets are primarily comprised of secured and unsecured term notes related to the sale of assets held by the Asset Management and Assistance Center and recoveries on failed credit unions. The notes are being repaid in monthly principal installments with terms ranging from one to thirty years and interest rates ranging from 8.0% to 10.5%.

7. AVAILABLE BORROWINGS

The Fund is authorized by the Federal Credit Union Act to borrow from the Treasury of the United States, upon authorization by the NCUA Board, up to a maximum of $100,000,000. The CLF is authorized to make advances to the Fund under terms and conditions established by the NCUA Board. No borrowings were obtained from these sources during 1999 and 1998.

8. TRANSACTIONS WITH NCUA OPERATING FUND

Substantial administrative services are provided to the Fund by the NCUA Operating Fund. The NCUA Operating Fund charges the Fund for these services based on an annual allocation factor approved by the NCUA Board derived from a study of actual usage conducted by the management of these Funds. The allocation factor was 50% to the Fund and 50% to the NCUA Operating Fund for 1999 and 1998. The cost of services provided by the NCUA Operating Fund was approximately $57,319,000 and $50,293,000 for 1999 and 1998, respectively, and includes pension contributions of approximately $4,152,000 and $3,432,000 to the Civil Service Retirement System and Federal Employees Retirement System defined benefit retirement plans for 1999 and 1998, 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 $74,000 for 1999 and $81,000 for 1998. The note receivable balance at December 31, 1999 and 1998, was approximately $1,314,000 and $1,386,000, 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 $1,788,000 and $1,926,000 for 1999 and 1998, respectively. The note receivable balance at December 31, 1999, was approximately $33,161,000.

The above notes mature as follows (in thousands):

	Unsecured Term Note	Secured Term Note	Total
2000	$ 72	$ 1,341	$ 1,413
2001	72	1,341	1,413
2002	72	1,341	1,413
2003	72	1,341	1,413
2004	72	1,341	1,413
Thereafter	954	25,142	26,096
Total	$1,314	$31,847	$33,161

The variable rate on both term notes is equal to the Fund's prior-month yield on investments. The average interest rate during 1999 and 1998 was approximately 5.52% and 5.70%, respectively. At December 31, 1999, the rate was 5.57%.

The NCUA Operating Fund leases certain office space and equipment under operating lease agreements that expire through 2004. Based on the allocation factor approved by the NCUA Board for 1998, the Fund will reimburse the NCUA Operating Fund for approximately 50% of the future lease payments. The cost of services provided by the NCUA Operating Fund includes rental charges of approximately $444,000 and $488,000 for 1999 and 1998, respectively. The amounts were derived using the current annual allocation factor.

The NCUA Operating Fund's total future minimum lease payments as of December 31, 1999, are as follows (in thousands):

2000	$ 813
2001	832
2002	850
2003	524
2004	453
Total	$ 3,472

9. 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, 1999		December 31, 1998	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Investments	$2,487,361	$3,470,968	$2,827,099	$2,867,344
Cash and cash equivalents	1,679,975	1,679,975	981,230	981,230
Accrued interest receivable	38,814	38,814	40,071	40,071
Notes receivable - NCUA Operating Fund	33,161	33,161	34,574	34,574
Amounts due to insured shareholders of liquidated credit unions	8,934	8,934	7,612	7,612
Due to NCUA Operating Fund	1,618	1,618	2,129	2,129
Accounts payable	49	49	554	554

10. 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.

11. CONTINGENCIES

Field of Membership Litigation - Four North Carolina Banks and the American Bankers Association (ABA) have challenged NCUA's approval of charter amendments granted to AT&T Family Federal

Credit Union (FCU). The banks challenged amendments that allowed select employee groups that were unrelated to the original sponsor to join the FCU. Their claim is that the amendments violate the common bond requirements of the FCU Act.

In First National Bank & Trust Co., *et al. v*. National Credit Union Administration, the District Court concluded that NCUA's select employee group policy, which permitted more than one distinct employee group to exist in a single credit union, each with its own common bond, was a reasonable interpretation of the FCU Act. The banks appealed. On July 30, 1996, the U.S. Court of Appeals for the D.C. Circuit issued an opinion reversing the District Court. The Court concluded that all groups in a credit union must share a single common bond.

On remand to the District Court, the plaintiffs sought a nationwide injunction barring all federal credit unions from adding select employee groups that did not share a single common bond or adding new members to select employee groups already within their field of membership. NCUA objected, arguing that this relief went far beyond what was sought in the AT&T case. The District Court then permitted the filing of a new lawsuit, ABA *et al. v*. NCUA *et al.*, which for the first time directly challenged NCUA's multiple group policy nationwide. The Court then issued a nationwide injunction barring NCUA's group policy nationwide and prohibiting all federal credit unions from adding new select employee groups or new members to existing select employee groups.

On December 24, 1996, the Court of Appeals issued a partial stay whereby credit unions were allowed to admit new members to existing select employee groups but were still prevented from adding new groups. On February 24, 1998, the Supreme Court agreed to hear the case. On February 25, 1998, the Supreme Court issued a decision holding that banks do have standing to challenge NCUA's interpretation of Section 109 of the FCU Act, and that NCUA's interpretation of that section was contrary to the unambiguous intent of Congress. However, in August 1998, Congress passed the Credit Union Membership Access Act (CUMAA), amending the FCU Act in favor of NCUA. The CUMAA allowed federal credit unions to retain their then-existing members and groups and to charter multiple common bond credit unions. CUMAA also authorized the chartering by NCUA of multiple common bond credit unions.

On December 17, 1998, NCUA's Board issued a final rule implementing the CUMAA. On January 8, 1999, the ABA filed a new lawsuit, ABA v. NCUA, which challenged this rule on the premise that the rule violates the FCU Act, as modified by the CUMAA. The complaint seeks a declaratory judgment to that effect, and a preliminary injunction setting aside any field of membership applications based upon the NCUA's final rule implementing the CUMAA. On March 10, 1999, the ABA's request for a preliminary injunction was denied. On April 1, 1999, the ABA filed its First Amended Complaint. NCUA has filed a partial motion to dismiss that is still pending.

In the opinion of management, the ultimate resolution of these matters will not be material to NCUA's financial position.

Office of Personnel Management Action - In September 1997, the U.S. Office of Personnel Management (OPM) transmitted to NCUA a report entitled "Report of a Delegated Examining Oversight Review, National Credit Union Administration," dated June 16-20, 1997 (the OPM Report). The OPM Report concluded that NCUA had violated merit systems principles and committed prohibited personnel practices. As a result of the OPM Report, NCUA lost its hiring authority and was required to undertake certain remedial actions with respect to its personnel practices. During 1998, NCUA took all corrective actions required by OPM and, on July 31, 1998, OPM returned NCUA's appointing authority.

During 1997, the OPM referred the aforementioned matter to the Office of Special Counsel (OSC) for an investigation of prohibited personnel practices. The OSC completed its investigation in 1999 and forwarded its findings to NCUA's Board. No final action has been taken by the NCUA Board.

The resolution of these matters may result in claims against NCUA, as well as additional costs related to the remedial personnel actions required. In the opinion of management, the ultimate resolution of these matters will not be material to NCUA's financial position.

In one personnel action, NCUA reached a settlement subsequent to December 31, 1999, whereby it will reimburse certain legal fees and pay certain retirement benefits to a former employee. The estimated amount of the settlement, $361,000, has been recorded as of December 31, 1999.

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

12. COMMITMENTS

NCUA has signed agreements for the lease of certain computer equipment beginning in 2000. The aggregate three-year commitment amounts to approximately $7.4 million.

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NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

Financial Statements for the Years
Ended December 31, 1999 and 1998, and
Independent Auditors' and Accountants' Reports

INDEPENDENT AUDITORS' REPORT

To the Inspector General of the
National Credit Union Administration:

We have audited the accompanying balance sheets of the National Credit Union Administration Central Liquidity Facility (CLF) as of December 31, 1999 and 1998, 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 generally accepted auditing standards 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, 1999 and 1998, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2000, on our examination of the National Credit Union Administration Central Liquidity Facility's assertions as to the effectiveness of its internal control over financial reporting, and our report dated February 25, 2000, on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. Those reports are integral parts of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

February 25, 2000

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

BALANCE SHEETS
DECEMBER 31, 1999 AND 1998
(Dollars in Thousands)

ASSETS	1999	1998
Cash (Note 11)	$ 977,248	$ 12
Investments with U.S. Central Credit Union (Notes 5, 8, 9, and 11)	909,884	797,405
Loans to members (Notes 4 and 11)	58,600	-
Accrued interest receivable (Note 11)	16,436	8,233
TOTAL ASSETS	$1,962,168	$805,650

LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES:		
Federal Financing Bank notes payable (Notes 6 and 11)	$1,041,000	$ -
Member deposits (Notes 7 and 11)	28,020	25,782
Accounts payable and other liabilities (Note 11)	731	59
Total liabilities	1,069,751	25,841
MEMBERS' EQUITY:		
Capital stock - required (Note 7)	880,953	768,298
Retained earnings	11,464	11,511
Total members' equity	892,417	779,809
TOTAL LIABILITIES AND MEMBERS' EQUITY	$1,962,168	$805,650

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 1999 AND 1998
(Dollars in Thousands)

	1999	1998
REVENUE - Investment income	$50,021	$40,028
EXPENSES (Note 10):		
Operating expenses:		
Group agent service fee	1	1
Personnel services	124	85
Other services	31	26
Rent, communications and utilities	14	14
Personnel benefits	28	19
Supplies and materials	4	2
Employee travel	6	2
Printing and reproduction	6	4
Total operating expenses	214	153
Interest - Federal Financing Bank notes	5,862	-
Interest - member deposits	699	449
Total expenses	6,775	602
EXCESS OF REVENUE OVER EXPENSES	$43,246	$39,426

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

STATEMENTS OF MEMBERS' EQUITY
YEARS ENDED DECEMBER 31, 1999 AND 1998
(Dollars in Thousands)

	Capital Stock	Retained Earnings
BALANCE AT JANUARY 1, 1998	$ 735,671	$ 11,511
Issuance of required capital stock	32,627	-
Dividends	-	(39,426)
Excess of revenue over expenses	-	39,426
BALANCE AT DECEMBER 31, 1998	768,298	11,511
Issuance of required capital stock	113,124	-
Redemption of required capital stock	(469)	-
Dividends	-	(43,293)
Excess of revenue over expenses		43,246
BALANCE AT DECEMBER 31, 1999	$ 880,953	$ 11,464

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1999 AND 1998
(Dollars in Thousands)

	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of revenue over expenses	$ 43,246	$ 39,426
Adjustments to reconcile excess of revenue over expenses to net cash provided by operating activities:		
(Increase) decrease in accrued interest receivable	(8,203)	1,485
Increase (decrease) in accounts payable and other liabilities	672	(10)
Net cash provided by operating activities	35,715	40,901
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(112,479)	(34,073)
Loan disbursement	(58,600)	-
Net cash used in investing activities	(171,079)	(34,073)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Additions to member deposits	4,620	1,506
Issuance of required capital stock	113,124	32,627
Dividends	(43,293)	(39,426)
Withdrawal of member deposits	(2,382)	(1,537)
Redemption of required capital stock	(469)	-
Proceeds from issuing notes	1,041,000	-
Net cash provided by (used in) financing activities	1,112,600	(6,830)
NET INCREASE (DECREASE) IN CASH	977,236	(2)
CASH, BEGINNING OF YEAR	12	14
CASH, END OF YEAR	$ 977,248	$ 12
SUPPLEMENTAL INFORMATION:		
Interest paid	$ 5,209	$ -

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 1999 AND 1998

1. ORGANIZATION AND PURPOSE

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

a. *Cash* - The carrying amounts for cash approximate fair value.

b. *Investments* - Securities held have maturities of one year or less and, as such, the carrying amounts approximate fair value.

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

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

e. *FFB Notes Payable* - For notes issued to the Federal Financing Bank, the carrying amounts approximate fair value.

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

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

3. GOVERNMENT REGULATIONS

The CLF is subject to various Federal laws and regulations. The CLF's operating budget requires Congressional approval and the CLF may not make loans to members for the purpose of expanding credit union loan portfolios. The CLF's investments are restricted to obligations of the United States Government and its agencies, deposits in Federally insured financial institutions, and shares and deposits in credit unions. Borrowing is Congressionally limited to twelve times equity and capital subscriptions on-call. However, there is a Congressional limitation of $600 million on funds that are borrowed and then loaned out at any one point in time. At December 31, 1998, the CLF was in compliance with these Congressional limitations.

On May 21, 1999, the President signed a midyear spending bill (HR 1141) that authorized the CLF to fully utilize its borrowing authority under the Federal Credit Union Act. That act effectively raised the CLF borrowing cap from $600 million to $20.7 billion (see Note 12). At December 31, 1999, the CLF is in compliance with its borrowing authority.

4. LOANS TO MEMBERS

The balance of outstanding loans as of December 31, 1999, was $58,600,000. Interest rates of these loans range from 5.239% to 5.4878%, and their maturities extend through March 2000. The CLF can provide members with extended loan commitments. There were no outstanding loan commitments at either December 31, 1999 and 1998, and there were no loans outstanding at December 31, 1998. See Note 12.

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

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

	December 31,	
	1999	**1998**
U.S. Central Credit Union (see Note 8):		
Redeposit Account	$ 836,014	$ 732,320
Share accounts	73,870	65,085
	$ 909,884	$ 797,405

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, President Reagan signed PL 97-101, which provided $100 million of permanent indefinite borrowing authority that may be provided by the Secretary of the Treasury to the CLF to meet emergency liquidity needs of credit unions. On May 21, 1999, the President signed a midyear spending bill HR 1141 that authorized the CLF to fully utilize its borrowing authority under the Federal Credit Union Act, or approximately $20.7 billion. Borrowings would be from the Federal Financing Bank with interest generally payable upon maturity. See Note 12.

7. CAPITAL STOCK AND MEMBER DEPOSITS

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

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

8. U.S. CENTRAL CREDIT UNION MEMBERSHIP

During fiscal year 1984, the CLF accepted a membership request from U.S. Central Credit Union (USC) on behalf of 29 of its corporate credit union members. At December 31, 1999 and 1998, $836,014,000 and $732,320,000, respectively, of the required portion of subscribed capital stock was purchased from the CLF by USC on behalf of its member credit unions.

In addition, by accepting the USC membership request, the CLF was initially committed to reinvest all but $50,000,000 of its total share capital in USC at market rates of interest. Beginning April 1, 1996, the CLF reinvests all of its agent member share capital in USC at market rates of interest. At December 31, 1999 and 1998, approximately $909,884,000 and $797,405,000, respectively, were invested in USC share accounts at 5.67% and 4.51%, respective yields.

9. CONCENTRATION OF CREDIT RISK

At December 31, 1999 and 1998, the CLF has a concentration of credit risk for its investments on deposit with USC of approximately $909,884,000 and $797,405,000 (see Notes 5 and 8).

10. SERVICES PROVIDED BY THE NATIONAL CREDIT UNION ADMINISTRATION

The National Credit Union Administration provides the CLF with data processing and other miscellaneous services and supplies. In addition, the National Credit Union Administration pays CLF's employees' salaries and benefits as well as the CLF's portion of monthly building operating costs. The CLF reimburses the National Credit Union Administration on a monthly basis for these items. Total reimbursements for the years ended December 31, 1999 and 1998, amounted to approximately $213,000 and $151,000, 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, 1999		December 31, 1998	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash	$ 977,248	$ 977,248	$ 12	$ 12
Investments	909,884	909,884	797,405	797,405
Loans to members	58,600	-	-	-
Accrued interest receivable	16,436	16,436	8,233	8,233
FFB notes payable	1,041,000	1,041,000	-	-
Member deposits	28,020	28,020	25,782	25,782
Accounts payable and other liabilities	731	731	59	59

12. SHORT–TERM REVOLVING CREDIT FACILITY

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

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

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NATIONAL CREDIT UNION ADMINISTRATION COMMUNITY DEVELOPMENT REVOLVING LOAN PROGRAM

Financial Statements for the Years Ended December 31, 1999 and 1998, and Independent Auditors' Reports

INDEPENDENT AUDITORS' REPORT

To the Inspector General of the
National Credit Union Administration:

We have audited the accompanying balance sheets of the National Credit Union Administration Community Development Revolving Loan Program (CDRLP) as of December 31, 1999 and 1998, and the related statements of operations, changes in program balance, and cash flows for the years then ended. These financial statements are the responsibility of the CDRLP's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and 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 Program as of December 31, 1999 and 1998, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2000, on our consideration of the National Credit Union Administration Community Development Revolving Loan Program internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

February 25, 2000

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN PROGRAM

BALANCE SHEETS
DECEMBER 31, 1999 AND 1998

ASSETS	1999	1998
Cash and cash equivalents (Note 2)	$ 4,320,218	$ 3,043,631
Loans - net of allowance (Note 4)	7,344,047	7,666,977
Interest receivable	52,815	62,431
TOTAL ASSETS	$11,717,080	$10,773,039

LIABILITIES AND PROGRAM BALANCE

	1999	1998
LIABILITIES:		
Accrued technical assistance	$ 116,097	$ 190,560
Total liabilities	116,097	190,560
PROGRAM BALANCE:		
Revolving fund capital (Note 3)	10,996,200	10,000,000
Accumulated earnings	604,783	582,479
Total program balance	11,600,983	10,582,479
TOTAL LIABILITIES AND PROGRAM BALANCE	$11,717,080	$10,773,039

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN PROGRAM

STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 1999 AND 1998

	1999	1998
REVENUES:		
Interest on cash equivalents	$ 118,571	$ 59,795
Interest on loans	220,483	217,972
Provision for loan losses	(11,204)	(21,658)
Total	327,850	256,109
EXPENSES:		
Technical assistance	(305,546)	(405,652)
Total	(305,546)	(405,652)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	$ 22,304	$ (149,543)

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN PROGRAM

STATEMENTS OF CHANGES IN PROGRAM BALANCE
YEARS ENDED DECEMBER 31, 1999 AND 1998

	1999	1998
PROGRAM BALANCE, BEGINNING OF YEAR	$10,582,479	$ 8,732,022
Appropriation - revolving fund capital (Note 3)	996,200	2,000,000
Excess (deficiency) of revenues over expenses	22,304	(149,543)
PROGRAM BALANCE, END OF YEAR	$11,600,983	$10,582,479

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN PROGRAM

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1999 AND 1998

	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess (deficiency) of revenues over expenses	$ 22,304	$ (149,543)
Adjustments to reconcile the excess (deficiency) of revenues over expenses to net cash used in operating activities:		
Provision for loan losses	11,203	21,658
Decrease (increase) in interest receivable	9,616	(6,710)
(Decrease) increase in accrued technical assistance	(74,463)	105,315
Net cash used in operating activities	(31,340)	(29,280)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Loan principal repayments	2,186,727	1,965,296
Loan disbursements	(1,875,000)	(2,965,000)
Net cash provided by (used in) investing activities	311,727	(999,704)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Appropriation - revolving fund capital	996,200	2,000,000
Net cash provided by financing activities	996,200	2,000,000
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,276,587	971,016
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,043,631	2,072,615
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 4,320,218	$ 3,043,631

See notes to financial statements.

1. NATURE OF ORGANIZATION

The Community Development Revolving Loan Program for Credit Unions (CDRLP) was established by an act of Congress (Public Law 96-123, November 20, 1979) to stimulate economic development in low-income communities. The National Credit Union Administration (NCUA) and the Community Services Association (CSA) jointly adopted Part 705 of NCUA Rules and Regulations, governing administration of the Program, on February 28, 1980.

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

The Community Development Credit Union Transfer Act (Public Law 99-604, November 6, 1986) transferred CDRLP 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 CDRLP 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 CDRLP reports its financial statements on the accrual basis of accounting.

Cash Equivalents - The Federal Credit Union Act permits the CDRLP to make investments in United States Government Treasury securities. All investments in 1999 and 1998 were cash equivalents and are stated at cost which approximates market. Cash equivalents are highly liquid investments with original maturities of three months or less.

Allowance for Loan Losses - The CDRLP 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, 1999 and 1998, there were no nonaccrual loans.

Salary and Operating Expenses - NCUA provides certain general and administrative support to the CDRLP, including office space, salaries, and certain supplies. The value of these contributed services is not allocated to the CDRLP. Consequently, the results of operations would be significantly different if the CDRLP were required to pay these expenses.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles 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 CDRLP is subject to various Federal laws and regulations. Lending is limited by Congress to a total of the $10,996,200 appropriated for the CDRLP plus accumulated earnings. Included in this $10,996,200 is $2,000,000 that was made available to the CDRLP during 1998 in accordance with Public Law 105-276, and an additional $996,200 that was made available to the CDRLP during 1999 in accordance with Public Law 106-74. Federally chartered and state-chartered credit unions may participate in the CDRLP's community loan program. Loans may be made to predominantly low-income credit unions as defined by the NCUA and are recorded in the participant's accounting records as nonmember deposits. As nonmember deposits, the NCUA Share Insurance Fund (NCUSIF) may insure these loans to participating credit unions in an amount not to exceed $100,000 per credit union. The covered amount of loans recorded as nonmember deposits by participating credit unions insured by the NCUSIF totaled approximately $4,998,000 and $4,956,000 at December 31, 1999 and 1998, respectively.

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

4. LOANS

Loans outstanding at December 31, 1999, are scheduled to be repaid as follows:

2000	$2,208,854
2001	2,223,700
2002	1,568,300
2003	1,087,500
2004	434,500
	7,522,854
Less: Allowance for loan losses	(178,807)
Net loans outstanding	$7,344,047

Changes in the allowance for loan losses are summarized below:

	1999	1998
Balance, beginning of year	$ 167,604	$ 145,946
Provision for loan losses	11,203	21,658
Balance, end of year	$ 178,807	$ 167,604

5. CONCENTRATION OF CREDIT RISK

At December 31, 1999 and 1998, there are no significant concentrations of credit risk in the loan portfolio. As discussed in Note 1, the CDRLP provides loans to credit unions that serve predominantly low-income communities.

6. ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

Interest Receivable and *Accrued Technical Assistance* - Are recorded at book values, which approximate the respective fair values.

Loans - The fair value is estimated by discounting projected future cash flows using current market interest rates. For purposes of this calculation, the discount rate used was the prime interest rate plus two percent (10.5% at December 31, 1999 and 9.75% at December 31, 1998).

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

	December 31, 1999		December 31, 1998	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:				
Cash and cash equivalents	$4,320,218	$4,320,218	$3,043,631	$3,043,631
Interest receivable	$ 52,815	$ 52,815	$ 62,431	$ 62,431
Loans	$7,522,854	$6,324,111	$7,834,581	$6,232,368
Allowance for loan losses	(178,807)	(178,807)	(167,604)	(167,604)
Loans, net of allowance	$7,344,047	$6,145,304	$7,666,977	$6,064,764
Liabilities:				
Accrued technical assistance	$ 116,097	$ 116,097	$ 190,560	$ 190,560

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

* * * * *