

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

**Financial Statements for the Years Ended
December 31, 2001 and 2000, and
Independent Auditors' Reports**

NATIONAL CREDIT UNION ADMINISTRATION COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

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INDEPENDENT AUDITORS' REPORT

To the Inspector General of the
National Credit Union Administration:

We have audited the accompanying balance sheets of the National Credit Union Administration Community Development Revolving Loan Fund (CDRLF) as of December 31, 2001 and 2000, and the related statements of operations, changes in fund balance, and cash flows for the years then ended. These financial statements are the responsibility of the CDRLF's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of the National Credit Union Administration Community Development Revolving Loan Fund as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2002, on our tests of the National Credit Union Administration Community Development Revolving Loan Fund's compliance with certain provisions of laws, regulations, contracts, and grants and on our consideration of its internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

February 22, 2002

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

**BALANCE SHEETS
DECEMBER 31, 2001 AND 2000**

ASSETS	2001	2000
Cash and cash equivalents (Note 2)	\$ 4,857,810	\$ 1,208,609
Loans - net of allowance (Note 4)	8,839,573	10,431,985
Interest receivable	<u>56,353</u>	<u>83,000</u>
TOTAL ASSETS	<u>\$13,753,736</u>	<u>\$11,723,594</u>
 LIABILITIES AND FUND BALANCE		
LIABILITIES:		
Accrued technical assistance	<u>\$ 196,400</u>	<u>\$ 104,371</u>
Total liabilities	<u>196,400</u>	<u>104,371</u>
 FUND BALANCE:		
Revolving fund capital (Note 3)	12,745,669	10,996,200
Accumulated earnings	<u>811,667</u>	<u>623,023</u>
Total fund balance	<u>13,557,336</u>	<u>11,619,223</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$13,753,736</u>	<u>\$11,723,594</u>

See notes to financial statements.

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

**STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2001 AND 2000**

	2001	2000
SUPPORT AND REVENUES:		
Interest on cash equivalents	\$ 64,431	\$ 82,274
Interest on loans	236,966	228,745
Provision for loan losses	(47,514)	(21,911)
Appropriation revenue	<u>248,531</u>	<u>-</u>
Total	<u>502,414</u>	<u>289,108</u>
EXPENSES:		
Technical assistance	<u>(313,770)</u>	<u>(270,868)</u>
Total	<u>(313,770)</u>	<u>(270,868)</u>
EXCESS OF SUPPORT AND REVENUES OVER EXPENSES	<u>\$ 188,644</u>	<u>\$ 18,240</u>

See notes to financial statements.

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

**STATEMENTS OF CHANGES IN FUND BALANCE
YEARS ENDED DECEMBER 31, 2001 AND 2000**

	2001	2000
FUND BALANCE, BEGINNING OF YEAR	\$11,619,223	\$11,600,983
Change in unexpended appropriations:		
Operating appropriations received (Note 3)	700,000	-
Appropriation revenue recognized (Note 3)	(248,531)	-
Appropriations - revolving fund capital (Note 3)	1,298,000	-
Excess of support and revenues over expenses	<u>188,644</u>	<u>18,240</u>
FUND BALANCE, END OF YEAR	<u>\$ 13,557,336</u>	<u>\$ 11,619,223</u>

See notes to financial statements.

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

**STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2001 AND 2000**

	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of support and revenues over expenses	\$ 188,644	\$ 18,240
Adjustments to reconcile the excess of support and revenues over expenses to net cash provided by (used in) operating activities:		
Change in unexpended appropriations	451,469	-
Provision for loan losses	47,514	21,911
Changes in assets and liabilities:		
Decrease (increase) in interest receivable	26,647	(30,185)
Increase (decrease) in accrued technical assistance	<u>92,029</u>	<u>(11,726)</u>
Net cash provided by (used in) operating activities	<u>806,303</u>	<u>(1,760)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Loan principal repayments	3,951,898	2,178,151
Loan disbursements	<u>(2,407,000)</u>	<u>(5,288,000)</u>
Net cash provided by (used in) investing activities	<u>1,544,898</u>	<u>(3,109,849)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Appropriations received - revolving fund capital	<u>1,298,000</u>	<u>-</u>
Net cash provided by financing activities	<u>1,298,000</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,649,201	(3,111,609)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,208,609</u>	<u>4,320,218</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 4,857,810</u>	<u>\$ 1,208,609</u>

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2001 AND 2000

1. NATURE OF ORGANIZATION

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

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

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

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

2. SIGNIFICANT ACCOUNTING AND OPERATIONAL POLICIES

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

Cash Equivalents - The Federal Credit Union Act permits the CDRLF to make investments in United States Government Treasury securities. All investments in 2001 and 2000 were cash equivalents and are stated at cost which approximates market. Cash equivalents are highly liquid investments with original maturities of three months or less.

Allowance for Loan Losses - The CDRLF records a provision for estimated loan losses. Loans considered to be uncollectible are charged to the allowance for loan losses. Management continually evaluates the adequacy of the allowance for loan losses based upon prevailing circumstances and an assessment of collectibility risk of the total loan portfolio. Accrual of interest is discontinued on non-performing loans when management believes collectibility is doubtful. At December 31, 2001 and 2000, there were no nonaccrual loans.

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

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

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

3. GOVERNMENT REGULATIONS

The CDRLF is subject to various Federal laws and regulations. Assistance, which includes lending and technical assistance, is limited by Congress to a total of the \$12,745,669 appropriated for the CDRLF plus accumulated earnings. Included in this \$12,745,669 is \$1,998,000 that was made available in 2001 in accordance with Public Law 107-73 and 106-377 for loans and technical assistance. Federally chartered and state-chartered credit unions may participate in the CDRLF's Community Loan Fund. Loans may 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 \$5,943,000 and \$6,227,000 at December 31, 2001 and 2000, respectively.

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

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

	2001	2000
Unexpended appropriations:		
Balance, beginning of the year	\$ -	\$ -
Operational appropriations received	700,000	-
Appropriation revenue recognized	<u>(248,531)</u>	<u>-</u>
Balance, end of year	<u>\$ 451,469</u>	<u>\$ -</u>

	2001	2000
Revolving fund capital:		
Balance, beginning of the year	\$ 10,996,200	\$ 10,996,200
Appropriations - revolving fund capital	1,298,000	-
Change in unexpended appropriations	<u>451,469</u>	<u>-</u>
Balance, end of year	<u>\$ 12,745,669</u>	<u>\$ 10,996,200</u>

4. LOANS

Loans outstanding at December 31, 2001 and 2000, are scheduled to be repaid during the following subsequent years:

	2001	2000
Year 1	\$ 2,605,900	\$ 3,055,804
Year 2	2,125,100	2,605,900
Year 3	1,492,100	2,125,100
Year 4	1,353,800	1,492,100
Year 5	<u>1,475,697</u>	<u>1,353,800</u>
	9,052,597	10,632,704
Less: Allowance for loan losses	<u>(213,024)</u>	<u>(200,719)</u>
Net loans outstanding	<u>\$ 8,839,573</u>	<u>\$ 10,431,985</u>

Changes in the allowance for loan losses are summarized below:

	2001	2000
Balance, beginning of year	\$ 200,719	\$ 178,808
Provision for loan losses	47,514	21,911
Loan losses	<u>(35,209)</u>	<u>-</u>
Balance, end of year	<u>\$ 213,024</u>	<u>\$ 200,719</u>

5. CONCENTRATION OF CREDIT RISK

At December 31, 2001 and 2000, there are no significant concentrations of credit risk in the loan portfolio. As discussed in Note 1, the CDRLF provides loans to credit unions that serve predominantly low-income communities.

6. ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

Interest Receivable and Accrued Technical Assistance - Such items are recorded at book values, which approximate the respective fair values.

Loans - The fair value is estimated by discounting projected future cash flows using current market interest rates. For purposes of this calculation, the discount rate used was the prime interest rate plus two percent (6.75% at December 31, 2001 and 11.5% at December 31, 2000).

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

	<u>December 31, 2001</u>		<u>December 31, 2000</u>	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:				
Cash and cash equivalents	<u>\$ 4,857,810</u>	<u>\$4,857,810</u>	<u>\$ 1,208,609</u>	<u>\$ 1,208,609</u>
Interest receivable	<u>\$ 56,353</u>	<u>\$ 56,353</u>	<u>\$ 83,000</u>	<u>\$ 83,000</u>
Loans	\$ 9,052,597	\$ 8,680,264	\$ 10,632,704	\$ 8,596,456
Allowance for loan losses	<u>(213,024)</u>	<u>(213,024)</u>	<u>(200,719)</u>	<u>(200,719)</u>
Loans, net of allowance	<u>\$ 8,839,573</u>	<u>\$ 8,467,240</u>	<u>\$ 10,431,985</u>	<u>\$ 8,395,737</u>
Liabilities:				
Accrued technical assistance	<u>\$ 196,400</u>	<u>\$ 196,400</u>	<u>\$ 104,371</u>	<u>\$ 104,371</u>

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

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Inspector General of the
National Credit Union Administration:

We have audited the financial statements of the National Credit Union Administration Community Development Revolving Loan Fund (CDRLF) as of and for the year ended December 31, 2001, and have issued our report thereon dated February 22, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the CDRLF's financial statements are free of material misstatement, we perform tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the CDRLF's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Inspector General, the Board of the National Credit Union Administration, and the management of the National Credit Union Administration Community Development Revolving Loan Fund and is not intended to be and should not be used by anyone other than these specified parties.

February 22, 2002

