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Report to the Congress

August 1991

FINANCIAL AUDIT

FSLIC Resolution Fund's 1989 Financial Statements

144598

GAO

United States
General Accounting Office
Washington, D.C. 20548

Comptroller General
of the United States

B-244576

August 2, 1991

To the President of the Senate and the
Speaker of the House of Representatives

This report discusses the results of our audit of the financial statements of the FSLIC Resolution Fund for the period August 9, 1989 (its inception), through December 31, 1989. We received the Fund's final financial statements on March 28, 1991. Late receipt of these statements from the Federal Deposit Insurance Corporation (FDIC), the Fund's administrator, was largely due to the need to resolve complex accounting issues posed by the creation of this new entity. While these accounting issues have been resolved, our audit disclosed the existence of various factors that in combination give rise to significant uncertainties affecting the Fund's ultimate cost of assistance provided to troubled thrift institutions and the Fund's recoveries from the sale of its assets. As a result of these factors, we were unable to assess the reasonableness of the Fund's estimated liability for assisted institutions or its estimated recoveries from asset sales. Therefore, we do not express an opinion on the Fund's statements of financial position as of December 31, 1989, and August 9, 1989, or its statement of income and accumulated deficit for the period August 9, 1989, through December 31, 1989. However, the Fund's statement of cash flows for the period August 9, 1989, through December 31, 1989, presents fairly, in all material respects, its cash flows for the period then ended.

Our reports on FDIC's internal control structure and its compliance with laws and regulations as they relate to the Fund are also presented. Our report on the internal control structure discusses two conditions that merit management's attention but do not materially affect FDIC's financial statements. These conditions involve improvements needed in FDIC's accounting system to facilitate producing a statement of cash flows and in FDIC's documentation to support asset values. We conducted our audit pursuant to the provisions of section 17(d) of the Federal Deposit Insurance Act, as amended (12 U.S.C. 1827(d)) and 31 U.S.C. 9105 and in accordance with generally accepted government auditing standards.

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), Public Law 101-73, created the FSLIC Resolution Fund to manage and dispose of assets and pay debts, obligations, contracts, and other liabilities resulting from thrift resolution actions initiated by the former Federal Savings and Loan Insurance Corporation (FSLIC)[1] before January 1, 1989. FDIC is responsible for administering the Fund to ensure that its assets are sold and its liabilities are paid.

The Congress appropriated $22 billion for fiscal year 1991, which will permit the Fund to renegotiate and/or buy out the Fund's assistance obligations. These financial statements do not reflect the potential effects of this appropriation.

We are sending copies of this report to the Chairmen of the Senate Committee on Banking, Housing and Urban Affairs and the House Committee on Banking, Finance and Urban Affairs; the Chairman of the Federal Deposit Insurance Corporation; the Director of the Office of Thrift Supervision; and the Director of the Office of Management and Budget.

Charles A. Bowsher

Charles A. Bowsher
Comptroller General
of the United States

[1]FIRREA abolished FSLIC on August 9, 1989, and gave the FSLIC Resolution Fund the responsibility for completing the resolution of all thrift institutions that failed before January 1, 1989, or were assisted by FSLIC prior to August 9, 1989. Institutions that failed after January 1, 1989, became the responsibility of the Resolution Trust Corporation.

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Abbreviations

FDIC	Federal Deposit Insurance Corporation
FIRREA	Financial Institutions Reform, Recovery, and Enforcement Act of 1989
FSLIC	Federal Savings and Loan Insurance Corporation
RTC	Resolution Trust Corporation
OIG	Office of Inspector General
GAAP	generally accepted accounting principles
FAS	Financial Accounting Standards

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To the Board of Directors
Federal Deposit Insurance Corporation

We have audited the accompanying statements of financial position of the FSLIC Resolution Fund[2] as of December 31, 1989, and August 9, 1989 (its inception), and the related statement of income and accumulated deficit and the statement of cash flows for the period August 9, 1989, through December 31, 1989. These financial statements are the responsibility of the management of the Federal Deposit Insurance Corporation (FDIC)—the Fund's legislatively mandated administrator. Our responsibility is to express an opinion on these financial statements based on our audit. In addition, we are reporting on our consideration of FDIC's internal control structure and its compliance with laws and regulations as they relate to the Fund.

We conducted our audit in accordance with generally accepted government auditing standards. 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 audit provides a reasonable basis for our opinion. However, due to the significant uncertainties discussed below, we were not able to assess the reasonableness of the Fund's estimated liability for assisted institutions and estimated recoveries from the sale of its receivership and corporate owned assets.

Generally, under its assistance contracts, the Fund is obligated to reimburse the acquirers of troubled thrift institutions for losses realized on both the disposition value and financial performance of the primarily real estate-related, poor quality assets of the acquired institutions. As of December 31, 1989, FDIC estimated that the Fund will pay about $29 billion as a result of these losses. However, the Fund's actual assistance payments could be significantly affected by various factors, such as the continuing instabilities in the real estate markets where the majority of

[2]The FSLIC Resolution Fund was established by section 215 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) to manage the assets and pay the debts, obligations, contracts, and other liabilities resulting from thrift resolution actions initiated by the former Federal Savings and Loan Insurance Corporation (FSLIC).

these assets are located; fluctuations in future interest rates; the effectiveness of FDIC's asset disposition strategies; and the Fund's fiscal year 1991 appropriation provided to reduce its assistance obligations.

FDIC records the amounts advanced to close failed thrift institutions as receivables and the amounts advanced to purchase assets from troubled or failed thrift institutions as corporate owned assets. FDIC establishes a loss allowance against the receivables and against the corporate owned assets. This allowance represents the difference between amounts advanced and expected repayment. The expected repayment is based on the estimated recoveries from the sale of the failed institutions' (receivership) assets. As of December 31, 1989, the Fund's combined receivership and corporate owned asset portfolio had a book value of $13 billion and FDIC estimated that the Fund would recover about $6.9 billion from the sale of these assets. However, actual recoveries will be significantly affected by the market impact of the rapidly increasing number of similar assets that other federal entities are holding for sale and by the continuing instabilities in the economies where these assets are located.

Because of the potential effect of the factors described above on the Fund's estimated amounts to be paid under its assistance contracts and on the Fund's estimated recoveries from the sale of its receivership and corporate owned assets, we were unable to express, and we do not express, an opinion on the Fund's financial position as of December 31, 1989, and August 9, 1989, or its results of operations for the period August 9, 1989, through December 31, 1989. Therefore, we caution users that the Fund's accompanying statements of financial position and the related statement of income and accumulated deficit have limited reliability. However, in our opinion, the Fund's statement of cash flows for the period August 9, 1989, through December 31, 1989, presents fairly, in all material respects, the Fund's cash flows for the period then ended, in conformance with generally accepted accounting principles.

The following sections of this report more fully discuss how the factors described above could significantly affect the amounts the Fund will have to pay under its assistance contracts and the amounts the Fund will recover from the sale of its receivership and corporate owned assets.

Estimated Liabilities for Assisted Institutions

Under FIRREA, the FSLIC Resolution Fund is now responsible for making all payments required by the long-term financial assistance contracts, commonly referred to as assistance agreements, FSLIC had entered into with acquirers of insolvent institutions. The larger assistance agreements generally provided each acquirer with an interest-bearing note equal to the acquired institution's reported negative net worth (the amount by which the institution's liabilities exceeded its assets) and guaranteed the disposition value (capital loss coverage) and financial performance (yield maintenance coverage) of the poor quality assets acquired from the failed institution.[3] The assets to which these guarantees apply are known as covered assets; collectively, they are referred to as covered asset pools. The aggregate covered asset pool for all agreements was about $36 billion at December 31, 1989, over 80 percent of which was real estate-related.[4]

Under capital loss coverage, acquirers are compensated for the difference if the disposition price is less than the guaranteed value of any covered asset, generally its historical cost. Yield maintenance coverage guarantees that the covered asset pool will collectively yield a specified variable rate of return for the term of the agreements. This rate is generally determined by adding a set number of basis points, as negotiated and documented in the assistance agreement, to the average cost of funds for all thrift institutions in the same general geographical region. Typically, the amount of the spread over the cost of funds declines over the life of the agreement. As of December 31, 1989, FDIC estimated that the Fund would pay about $29 billion over the remaining life of the assistance agreements (8 to 9 years for the larger agreements) as a result of these asset value and performance guarantees. However, the combined effect of three interrelated factors which give rise to uncertainties could have a significant impact on the actual covered asset payments to be made after December 31, 1989.

First, local real estate market conditions, the most important determinant of any individual real estate-related asset's value, are subject to significant shifts over extended periods of time. Most assets guaranteed

[3]See Thrift Resolutions: Estimated Costs of FSLIC's 1988 and 1989 Assistance Agreements Subject to Change (GAO/AFMD-90-81, September 13, 1990) for a more detailed discussion of these and other assistance agreement provisions.

[4]Real estate-related covered assets include (1) loans and investments secured by primarily commercial properties, (2) foreclosed commercial or residential properties, and (3) subsidiaries which held these types of assets when the acquired institutions' investment in the subsidiary became a covered asset. This definition considers undeveloped land to be commercial property.

by the Fund are located in the southwest and in certain parts of California—real estate markets that have experienced severe instability in recent years. Projected capital loss payments were based on covered asset appraisals. However, appraisals, which generally estimate value based on recent sales of similar assets, might not reliably indicate future values because the local real estate markets could significantly change prior to asset disposition. Because the majority of these assets are located in real estate markets susceptible to continuing instabilities as a result of the slowdown in the economy and the increasing size of the federal government's real estate inventory, asset values determined as recently as 6 months ago may now be overly optimistic.

Second, interest rate changes, which parallel changes in cost of funds indexes, will directly affect covered asset pool guaranteed yield levels and therefore the amount of the Fund's estimated yield maintenance payments. A 1-percent increase in interest rates could result in an increase of a few hundred million dollars a year in covered asset payments. The Fund's December 31, 1989, projections assumed interest rates would remain constant—an assumption consistent with the general interest rate environment at that time. However, interest rates are more likely to fluctuate over the remaining term of the agreements and, therefore, we cannot be certain that FDIC's estimate provides a reliable basis for substantiating future yield maintenance costs.

Third, the Fund administrators' ability to effectively oversee the acquirers' asset management and disposition strategies will have a significant effect on actual covered asset payments. If the broad oversight authority provided by the assistance agreements is used properly, it should ensure that covered assets are being managed in a manner which maximizes their financial performance and disposition value and, therefore, minimizes the Fund's costs. For example, FDIC can (1) review and approve acquirers' asset management plans, which provide estimated disposition dates and values, (2) purchase covered assets at their guaranteed value, or (3) write down assets to fair market value by making capital loss payments prior to actual disposition. However, until FDIC develops a historical track record against which its performance can be measured, we cannot be certain that the acquirers' asset management and disposition strategies will be as cost efficient as the December 31, 1989, assistance payment projections reflect.

In addition, the Congress appropriated $22 billion in fiscal year 1991, which will permit the Fund to reduce its future assistance costs by renegotiating and/or buying out its assistance contracts. Use of this appropriation could significantly reduce the Fund's future assistance payments. For example, if FDIC does not expect the value of a covered asset to improve significantly, it could require a write-down, which triggers an immediate capital loss payment and could minimize total costs by reducing yield maintenance payments. While this appropriation was available before FDIC finalized the Fund's 1989 financial statements, FDIC had not yet assessed the appropriation's impact on the Fund's estimated future assistance payments.[5] Therefore, these financial statements do not reflect any potential cost savings from the use of the $22 billion.

Estimated Recoveries on Assets in Receivership or Owned by the Fund

As part of its resolution activities, FSLIC placed failed institutions into receivership and paid out funds required to settle depositor claims of these failed institutions. However, FDIC expects to recover some portion of those paid claims through the sale of the failed institutions' assets that remain in receivership. As of December 31, 1989, the Fund's claim against receiverships totaled about $14.3 billion. Receivership assets associated with those claims totaled about $9 billion, and FDIC estimated it would recover $5.6 billion from the sale of these assets. In addition, the Fund owns about $4 billion in assets that FSLIC had purchased to improve the marketability (and thus facilitate the sale) of certain troubled institutions and to terminate receiverships. These assets are referred to as corporate owned assets. FDIC is managing and marketing these assets in an attempt to maximize their recovery value. As of December 31, 1989, FDIC estimated the Fund would recover $1.3 billion from the sale of its corporate owned assets.

For the Fund's receivership assets, FDIC calculated asset recovery values based on the asset's estimated market value less the associated costs of holding the asset for sale. FDIC derived the corporate owned asset recovery rate by projecting the expected recovery values for receivership assets to similar types of corporate owned assets. Asset recovery values are generally based on appraisals, which are usually the best available information. However, the current instabilities in the economy, particularly with regard to the real estate markets where the majority of the Fund's assets are located, undermine the reliability of those

[5]In January 1991, a plan was announced for using the $22 billion to reduce the Fund's assistance costs. A significant portion of the fiscal year 1991 appropriation will not be obligated until the last quarter of 1991.

appraisals for purposes of estimating the projected recovery values of assets. In addition, FDIC did not update the corporate owned asset recovery rate in 1989; instead, it used the asset recovery rate determined by FSLIC in September 1988, when the overall economy was healthier.

The uncertainties surrounding these recovery values have been magnified by the Resolution Trust Corporation's (RTC) recent introduction into the market place of large quantities of similar assets acquired as a result of thrift failures. As of December 31, 1990, RTC had resolved 352 thrift institutions, resulting in a $67 billion increase in the federal government's asset portfolio, and estimated that another 332 thrift institutions with total assets of $167 billion will be resolved by December 1991. In resolving these additional thrift institutions, the federal government's asset portfolio will greatly increase. The weakening condition of the banking industry is also steadily adding to the government's supply of assets, further reducing the sales value of similar assets marketed by the FSLIC Resolution Fund. Further, financial institutions' inventories of real estate acquired through nonperforming loans are growing. If the current recession continues or deepens and the thrift and banking industries continue to deteriorate, asset sales are likely to yield significantly less than expected. As a result, the Fund's estimated recoveries from its receivership and corporate owned asset sales as of December 31, 1989, may be materially overstated.

Judgments about the future financing needs of the FSLIC Resolution Fund will be difficult to make until the economy and thrift and banking industries are stabilized and real estate markets can adjust to the size of the federal government's asset portfolio. Meanwhile, it is imperative that FDIC continue to estimate the Fund's future obligations and recoveries in light of current conditions in order to provide FDIC management, the Congress, and others with a basis for evaluating the Fund's exposure and future funding requests.

Charles A. Bowsher

Charles A. Bowsher
Comptroller General
of the United States

March 28, 1991

Report on Internal Control Structure

We have audited the financial statements of the FSLIC Resolution Fund for the period August 9, 1989, through December 31, 1989, and have issued our opinion thereon. This report pertains only to our study and evaluation of the Federal Deposit Insurance Corporation's (FDIC) internal control structure as it relates to the FSLIC Resolution Fund for the period ended December 31, 1989.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. In planning and performing our audit, we considered the internal control structure of the Fund in order to determine the auditing procedures needed for purposes of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

FDIC's management is responsible for establishing and maintaining an internal control structure over the FSLIC Resolution Fund. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the internal control structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For purposes of this report, we have classified FDIC's significant internal control structure policies and procedures for the Fund into the following categories:

- assistance to troubled institutions, consisting of policies and procedures related to assistance agreement claim payments and to estimates of the future costs of the Fund's assistance programs;

- assistance to closed institutions, consisting of policies and procedures related to liquidation activities for receiverships and to the valuation of the Fund's net receivables from assistance transactions;
- corporate owned assets, consisting of policies and procedures related to the management, liquidation, and valuation of assets owned by the Fund;
- treasury/revenue, consisting of policies and procedures related to cash disbursements, cash receipts, and investing activities;
- expenditures, consisting of policies and procedures related to disbursements for administrative and supervisory expenses; and
- financial reporting, consisting of policies and procedures related to the processing of journal entries into the general ledger and the preparation of financial statements.

In obtaining an understanding of the design of the relevant policies and procedures for the internal control structure categories listed above, we found that since the FSLIC Resolution Fund had only been in existence for 5 months,[6] FDIC had not had sufficient time to develop and implement many of the formal internal control processes and procedures necessary to provide management with reasonable assurance that the Fund's assets are safeguarded against loss and that its transactions are executed in accordance with management's authorizations. Instead, during the period of audit, the Fund was operating with many informal and undocumented control processes and procedures and, for some activities, continued to utilize the policies and procedures of the former FSLIC. In addition, FDIC had not completed the conversion of all of FSLIC's assets onto FDIC's subsidiary systems. Therefore, we did not attempt to directly test or rely on FDIC's internal control structure over the FSLIC Resolution Fund. Instead, we determined it was more efficient and effective to rely solely on increased substantive testing of account balances associated with each control category. Such tests can also serve to identify weaknesses in the internal control structure. As discussed in the following paragraphs, our consideration of FDIC's internal control structure relating to the Fund revealed two reportable conditions.

Reportable Conditions

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect an organization's ability to record, process, summarize, and report financial data

[6]The FSLIC Resolution Fund was established on August 9, 1989, by the Financial Institutions Reform, Recovery, and Enforcement Act and is managed by FDIC.

consistent with the assertions of management in the financial statements.

There are basically two levels of reportable conditions— those that are considered material weaknesses,[7] which could affect the fair presentation of the financial statements, and those that while not material are significant matters that merit management's attention. While we did not identify any material weaknesses, we noted two matters involving the internal control structure and its operation that we consider to be reportable conditions under generally accepted government auditing standards. The two conditions involve (1) FDIC's inability to readily identify cash transactions in order to prepare a statement of cash flows in accordance with generally accepted accounting principles (GAAP) and (2) the lack of sufficient documentation supporting some of the Fund's corporate owned assets.

Cash Flow Statement Presentation Not in Conformity With GAAP

The statement of Financial Accounting Standards (FAS) no. 95, Statement of Cash Flows, requires an entity to include a statement of cash flows when issuing a complete set of financial statements for accounting periods ending after July 15, 1988. The primary purpose of a statement of cash flows is to provide relevant information about an entity's cash receipts and cash payments during a given period. The provisions of FAS 95 require that only cash transactions be included in the statement of cash flows and that these cash transactions should generally be presented as gross amounts rather than as net changes in related balance sheet amounts.

FDIC's accounting system was not designed to distinguish between cash and noncash activity; therefore, FDIC could not readily identify cash transactions. As a result of this system limitation, FDIC's statement of cash flows included cash that the Fund expected to receive or was obligated to pay during the period (accruals) and included net changes in activity rather than actual cash received and cash paid during the period. Reporting both accrued amounts and net changes in activity misstates actual cash flows. For example, FDIC presented the total amount of interest earned on investments during 1989 as a cash inflow. However, $170,000 of this interest was not actually received in cash as of

[7] A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities 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.

December 31, 1989, resulting in an overstatement of cash inflows by this amount. In another example, FDIC included $1.1 million payable to the Savings Association Insurance Fund as of December 31, 1989, as a cash outflow, resulting in an overstatement of cash outflows by this amount.

Cash flow information, when used with related disclosures and information in the other financial statements, is intended to help the Congress and other users of the FSLIC Resolution Fund's financial statements to assess the Fund's ability to generate positive future net cash flows from operations and thus meet its obligations. This can be important when considering the level of appropriations for the FSLIC Resolution Fund. Our audit tests determined that the accrued and net amounts presented in the Fund's statement of cash flows for the period ending December 31, 1989, are immaterial. However, if these immaterial amounts increase in significance in future reporting periods, presenting them in the statement of cash flows could be misleading to the users and could impair a reasonable determination of the Fund's future cash needs.

FDIC acknowledges that its current system does not have the capability to readily identify individual cash receipt and disbursement transactions and has formed a team to enhance the system to enable it to produce a statement of cash flows that conforms with FAS 95. FDIC anticipates that this system enhancement will be completed in time to properly present its 1991 statement of cash flows.

Lack of Supporting Asset Documentation

The Comptroller General's Standards for Internal Controls in the Federal Government provides documentation standards for an entity's accounting transactions. The standards specify that an entity must have written evidence of all its accounting transactions and that the documentation of these transactions should be complete and accurate and should facilitate tracing the transaction from its initiation through its completion.

On August 9, 1989, when FSLIC's corporate owned assets were transferred to the Fund, they had a book value of $4 billion. In converting the corporate owned asset balances from FSLIC's accounting systems onto its systems, FDIC identified $103.9 million of assets for which no supporting asset listings, reconciliation files, or asset manager reports existed to provide information necessary to properly account for the assets' existence and value. Many of these unsupported assets on the Fund's books resulted from FSLIC purchases in the early 1980s. At that time, FSLIC purchased problem institutions' and receiverships' real estate, mortgage loans, and other assets (corporate owned assets) in an attempt to facilitate acquisitions and mergers of problem institutions and terminations of receiverships. However, for some of its earliest asset purchases, FSLIC did not have a system in place to appropriately account for these purchases, resulting in unsupported balances for some assets recorded in its general ledger.

In February 1990, after the merger of FSLIC's operations into FDIC, FDIC's Office of Inspector General (OIG) reviewed FDIC's accounting policies and procedures governing the Fund's corporate owned asset activity. The OIG reported several weaknesses regarding corporate owned assets, including the poor condition of asset files and documentation, that could limit FDIC's ability to efficiently manage and liquidate these assets.

In response to these concerns, FDIC established a task force in April 1990 to (1) research and establish asset documentation files supporting the transactions that were posted in the general ledger for each asset account and (2) improve policies and procedures governing future accounting for these assets. At the time of our audit, FSLIC operations were transitioning into FDIC operations, and the task force was in the process of addressing the concerns with the corporate owned assets.

Therefore, we determined it was not practical to test the design, operation, and adequacy of FDIC's controls over assets. However, we believe the results of our substantive testing provide sufficient evidence for our report on the Fund's financial statements. In conjunction with our audit of the Fund's 1990 financial statements, we are currently developing procedures to begin evaluating the internal controls over the Fund's assets. Although we expect this work to extend beyond the 1990 audit, we plan to discuss any preliminary results as part of that audit report.

Report on Compliance With Laws and Regulations

We have audited the financial statements of the FSLIC Resolution Fund for the period August 9, 1989, through December 31, 1989, and have issued our opinion thereon. This report pertains only to our review of the Federal Deposit Insurance Corporation's (FDIC) compliance with laws and regulations as they relate to the FSLIC Resolution Fund for that period.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

FDIC's management is responsible for compliance with laws and regulations applicable to the FSLIC Resolution Fund. As part of obtaining reasonable assurance as to whether the financial statements were free of material misstatement, we selected and tested transactions and records to determine FDIC's compliance with certain provisions of the Federal Deposit Insurance Act, as amended (12 U.S.C. 1811 et. seq.), and title III of the Competitive Equality Banking Act of 1987 (12 U.S.C. 226 note), which, if not complied with, could have a material effect on the FSLIC Resolution Fund's financial statements. However, it should be noted that our objective was not to provide an opinion on overall compliance with such provisions. Because of the limited purpose for which our tests of compliance were made, the laws and regulations tested did not cover all legal requirements with which FDIC has to comply.

The results of our tests indicate that with respect to the items tested, FDIC complied, in all material respects, with those provisions of laws and regulations that could have a material effect on the Fund's financial statements. With respect to transactions not tested, nothing came to our attention that caused us to believe that FDIC had not complied, in all material respects, with those provisions.

Financial Statements

Statements of Financial Position

(In thousands)

	December 31 1989	August 9 1989
Assets		
Cash and cash equivalents (Note 3)	$ 1,576,127	$ 1,935,649
Net receivables from assistance and failures (Note 4)	7,168,442	7,634,475
Corporate owned assets, net (Note 5)	1,282,462	1,286,370
Other assets (Note 6)	34,442	18,837
	$ 10,061,473	$ 10,875,331
Liabilities		
Accounts payable, accrued liabilities and other	26,628	37,279
Liabilities incurred from assistance and failures (Note 7)	23,941,545	20,711,701
Liabilities for estimated assistance (Note 8)	20,047,694	19,920,542
Estimated losses from litigation	103,000	-0-
Total Liabilities	**44,118,867**	**40,669,522**
Resolution Equity (Note 10)		
Contributed capital	1,829,000	-0-
Accumulated deficit	(35,886,394)	(29,794,191)
Total Resolution Equity	**(34,057,394)**	**(29,794,191)**
	$ 10,061,473	**$ 10,875,331**

See accompanying notes

Statement of Income and Accumulated Deficit

For the Period from Inception (August 9, 1989) through December 31, 1989
(In thousands)

Revenue	
Assessment revenue (Note 11)	$ 98,827
Interest on U.S. Treasury obligations	39,996
Other interest	54,538
Revenue from corporate owned assets	82,423
Other revenue	25,904
Total Revenue	**301,688**
Expenses and Losses	
Administrative operating expenses	70,161
Interest expense	820,740
Operating expenses for corporate owned assets	18,207
Provision for losses (Note 9)	5,479,181
Total Expenses and Losses	**6,388,289**
Net Loss Before Funding Transfer	**(6,086,601)**
Funding Transfer to Savings Association Insurance Fund (Note 1)	(5,602)
Net Loss	**(6,092,203)**
Accumulated Deficit - August 9	**(29,794,191)**
Accumulated Deficit - December 31	**$ (35,886,394)**

See accompanying notes

Statement of Cash Flows

For the Period from Inception (August 9, 1989) through December 31, 1989
(In thousands)

Cash Flows From Operating Activities:	
Cash inflows from:	
Assessment revenue	$ 98,827
Interest on U.S. Treasury obligations	39,996
Recoveries from assistance and failures	456,160
Recoveries from corporate owned assets	3
Cash outflows for:	
Administrative operating expenses	72,415
Disbursements for assistance and failures	2,326,105
Disbursements for corporate owned assets	14,606
Increases in other assets	38,783
Decreases in accounts payable, accrued liabilities and other	30,448
Net Cash Used by FRF Operating Activities	**(1,887,371)**
Funding transfer to SAIF	5,602
Net Cash Used by Operating Activities	**(1,892,973)**
Cash Flows Provided from Investing Activities	**-0-**
Cash Flows From Financing Activities:	
Cash inflows from:	
U.S. Treasury payments	1,159,000
Sale of capital certificates	670,000
Cash outflows for:	
Payments of liabilities incurred from assistance and failures of insured institutions	295,549
Net Cash Provided by Financing Activities	**1,533,451**
Net (Decrease) in Cash and Cash Equivalents	**(359,522)**
Cash and Cash Equivalents - August 9	**1,935,649**
Cash and Cash Equivalents - December 31	**$ 1,576,127**

See accompanying notes

Notes to Financial Statements

DECEMBER 31, 1989

1. Impact of FIRREA Legislation:

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) became public law on August 9, 1989. The primary purpose of the legislation was to reform, recapitalize, and consolidate the federal deposit insurance system so as to restore the public's confidence in the savings and loan industry and to ensure a safe and stable system of affordable housing finance through major regulatory reforms, strengthened capital standards and safeguards for the disposal of recoverable assets. FIRREA abolished the Federal Savings and Loan Insurance Corporation (FSLIC) and the Federal Home Loan Bank Board (FHLBB). Their functions were transferred, in a prescribed manner, to the Federal Deposit Insurance Corporation (FDIC), the Office of Thrift Supervision, the Federal Housing Finance Board, and the Resolution Trust Corporation (RTC).

Under FIRREA, the FDIC became the administrator of two separate and distinct insurance funds: the Bank Insurance Fund (BIF; formerly the Deposit Insurance Fund) which insures the deposits of all BIF member banks, and the Savings Association Insurance Fund (SAIF) which insures the deposits of all SAIF member savings associations (formerly a function of the FSLIC). Both insurance funds are maintained separately to carry out their respective legislative mandates, with no commingling of assets or liabilities. The FSLIC Resolution Fund (FRF), a third separate fund under FDIC management, the SAIF and the RTC replaced the FSLIC in problem thrift resolution activities.

In accordance with FIRREA, the FRF will complete the resolution of all thrifts that failed before January 1, 1989 or were assisted before August 9, 1989. The RTC will manage and resolve all thrifts that were previously insured by the FSLIC and for which a conservator or receiver is appointed during the period January 1, 1989 through August 8, 1992, after which the SAIF will begin resolving cases. Accordingly, the RTC is managing seven receiverships that were effected by the FSLIC after January 1, 1989 but prior to the enactment of FIRREA. However, activities of these receiverships are included in the FRF financial statements because the FRF remains financially responsible for the losses associated with these resolution cases.

The Resolution Funding Corporation was established by FIRREA to provide funds to the RTC to enable the RTC to carry out its mandate. The Financing Corporation (established under the Competitive Equality Banking Act of 1987) is a mixed-ownership government corporation whose sole purpose is to function as a financing vehicle for the FRF (formerly the FSLIC).

Creation and Purpose of the FRF. The FRF was established on August 9, 1989 by FIRREA. Its purpose is to liquidate assets and contractual obligations of the now defunct FSLIC.

FIRREA requires the FRF to pay to the Savings Association Insurance Fund such amounts as are needed for the SAIF's administrative and supervisory expenses for the period from inception (August 9, 1989) through September 30, 1991. Upon termination of the RTC (not later than December 31, 1996), all assets and liabilities of the RTC will be transferred to the FRF, after which all future net proceeds from the sale of such assets will be transferred to the Resolution Funding Corporation for interest payments. The FRF will continue until all of its assets are sold or otherwise liquidated and all of its liabilities are satisfied. Upon dissolution of the FRF, any funds remaining shall be paid to the U. S. Treasury; any administrative facilities and supplies will be transferred to the SAIF.

Source of Funds. The FRF is funded from the following sources, to the extent funds are needed, in the listed priority:

1) Income earned on, and proceeds from the disposition of, assets of the FRF;

2) Liquidating dividends and payments made on claims received by the FRF from receiverships to the extent such funds are not required by the Resolution Funding Corporation or the Financing Corporation;

3) Amounts borrowed by the Financing Corporation; and

4) During the period from inception (August 9, 1989) through December 31, 1991, amounts assessed against Savings Association Insurance Fund members by the Federal Deposit Insurance Corporation which are not claimed by the Financing Corporation or by the Resolution Funding Corporation.

If the above sources are insufficient to satisfy the liabilities of the FRF, payments will be made from the U. S. Treasury in such amounts as are necessary, as approved by the Congress, to carry out the purpose of the FRF.

Financial Statements. The August 9, 1989 inception balances for the FRF are the August 8, 1989 ending balances of the FSLIC, except for the following changes.

1) The net investment in the Federal Asset Disposition Association (FADA) of $15.8 million is shown in the FRF "Other assets" line item. The FSLIC presented its investment in this wholly-owned subsidiary on a consolidated basis.

2) The FSLIC Capital Stock and Capital Certificates ending balances have been reclassified to the FRF accumulated deficit for a decrease of $7.5 billion.

3) The estimated assistance liability and accumulated deficit have been corrected for an error in the FSLIC ending financial statements caused by double counting the liability for certain assistance notes payable outstanding. This change resulted in a decrease of $1.7 billion.

4) Additionally, the estimated assistance liability has been decreased by $376 million due to the reclassification to the FRF "Liabilities incurred from assistance and failures" line item for certain assistance agreement costs which were incurred as of August 8, 1989, but not yet paid. The FSLIC included these costs as a component of its estimated assistance liability.

5) The FSLIC August 8, 1989 liability for the estimated cost of unresolved cases of $55.2 billion was transferred to the Resolution Trust Corporation.

6) Other minor reclassifications have been made to conform to the FRF's presentation.

2. Summary of Significant Accounting Policies:

General. These statements do not include reporting for assets and liabilities of closed insured thrift institutions for which the FRF acts as receiver or liquidating agent. Periodic and final reports of the FRF's activities as receiver or liquidating agent are furnished to courts, supervisory authorities, and others as required.

Allowance for Loss on Receivables and Corporate Assets. The FRF records, as a receivable, the amounts advanced for assisting and closing thrift institutions, and as an asset, the amounts advanced for the purchasing of corporate assets. An allowance for loss is established to represent the difference between the amounts advanced and the expected repayment, based on the estimated cash recoveries from the assets of the assisted or failed thrift institution, net of all estimated liquidation costs.

Liabilities for Estimated Assistance. The FRF recognizes an estimated liability for probable future assistance payable to acquirers of troubled thrifts under its financial assistance agreements. Such estimates are presented on a discounted basis. In addition, the FRF recognizes estimated adjustments to its promissory notes to acquirers of troubled thrifts when draft inventory audit reports verifying the required final note amount are received. Such estimates are presented in the "Liabilities for estimated assistance" line item until a revised note is issued.

Litigation Losses. The FRF accrues as a charge to current period income an estimate for probable loss from litigation against the FRF in its corporate or receivership capacity. The FDIC Legal Division recommends these estimated losses on a case-by-case basis.

Assessment Revenue Recognition. The FRF recognizes as assessment revenue only that portion of SAIF member assessments due that is not claimed by the Financing Corporation or the Resolution Funding Corporation.

Depreciation. The cost of furniture, fixtures, equipment, and other fixed assets is expensed at time of acquisition. This policy is a departure from generally accepted accounting principles; however, the financial impact is not material to the FRF financial statements.

Wholly-Owned Subsidiary. The Federal Asset Disposition Association (FADA) is a wholly-owned subsidiary of the FRF. FIRREA requires that FADA be sold or liquidated by February 9, 1990. The investment in FADA is accounted for using the equity method and is included in the financial statement line item "Other assets". The value of the investment at December 31, 1989 has been adjusted for projected expenses relating to the liquidation of FADA.

3. Cash and Cash Equivalents (in thousands):

The FRF considers cash equivalents to be short-term, highly liquid investments with original maturities of three months or less. This includes the purchase of one-day Special Treasury Certificates.

	December 31 1989	August 9 1989
Cash	$ 1,236,144	$ 66,340
Cash Equivalents	339,983	1,869,309
	$ 1,576,127	**$ 1,935,649**

4. Net Receivables from Assistance and Failures (in thousands):

	December 31 1989	August 9 1989
Due from Insured Institutions:		
Collateralized loans	$ 740,000	$ 800,000
Other loans	357,608	392,398
Income capital certificates	284,153	284,153
Net worth certificates	44,025	-0-
Preferred stock from assistance transactions	572,216	572,216
Accrued interest	19,939	8,179
Allowance for losses (Note 9)	(404,687)	(214,401)
	1,613,254	**1,842,545**
Due from Receiverships:		
Subrogated accounts	14,337,803	14,514,136
Collateralized advances/loans	730,407	806,973
Accrued interest, net	2,025	604
Allowance for losses (Note 9)	(9,515,047)	(9,529,783)
	5,555,188	**5,791,930**
	$ 7,168,442	**$ 7,634,475**

Capital Instruments Program. As part of its default prevention activities, the FSLIC purchased capital instruments such as Income Capital Certificates (ICCs) and Net Worth Certificates (NWCs) from insured institutions. Generally, the FSLIC would purchase these certificates in a non-cash exchange by issuing a note payable of equal value; however, some certificates were acquired by cash payments. The total amount of ICCs purchased and recorded in the accounting records as of both December 31, 1989 and August 9, 1989 is $293,153,000. Likewise, the total amount of NWCs purchased and recorded in the accounting records as of December 31, 1989 and August 9, 1989 is $158,950,000 and $162,325,000, respectively.

For financial statement purposes, capital instruments purchased by the issuance of notes payable and for which no losses are expected have been netted against their corresponding payables. No new NWCs have been issued by the FRF; the change in the NWC receivable and related payable (Note 7) from $0 on August 9, 1989 to $44,025,000 on December 31, 1989 is the result of new losses established against certain outstanding NWCs. These losses require the presentation of related gross asset, allowance, and liability balances in the accompanying footnotes. The FRF financial statements as of both December 31, 1989 and August 9, 1989 excluded ICCs of $9,000,000. Likewise, the FRF financial statements as of December 31, 1989 and August 9, 1989 excluded NWCs of $114,925,000 and $162,325,000, respectively.

5. Corporate Owned Assets, Net (in thousands):

The FSLIC acquired assets from problem institutions in its efforts to merge and/or sell failing thrifts. The vast majority of these assets are real estate and mortgage loans.

	December 31 1989	August 9 1989
Corporate owned assets	$ 3,956,361	$ 3,953,903
Allowance for losses	(2,673,899)	(2,667,533)
	$ 1,282,462	**$ 1,286,370**

6. Other Assets (in thousands):

	December 31 1989	August 9 1989
Investment in FADA, net	$ 15,781	$ 19,126
Accounts receivable	18,298	(310)
Miscellaneous assets	363	21
	$ 34,442	**$ 18,837**

7. Liabilities Incurred from Assistance and Failures (in thousands):

The FSLIC had issued promissory notes and entered into assistance agreements in order to prevent the default and subsequent liquidation of certain insured thrift institutions. These notes and agreements required the FSLIC to provide financial assistance over time. Under FIRREA, the FRF has assumed these obligations. The FRF presents its notes payable and its obligation for assistance agreement payments incurred but not yet paid as a component of the line item "Liabilities incurred from assistance and failures". Estimated future assistance payments to acquirers required under its assistance agreements are presented as a component of the line item "Liabilities for estimated assistance" (Note 8).

From time to time, the RTC, on behalf of the FRF, may renegotiate some of its notes payable and assistance agreements with terms that are more favorable to the FRF. In addition, results of inventory audits performed in accordance with terms of certain existing assistance agreements may also alter the amount of promissory notes outstanding.

The following components of the line item are presented in thousands:

	December 31 1989	August 9 1989
Notes payable to FHLB/Treasury	$ 774,800	$ 834,800
Income capital certificate notes (Note 4)	92,801	92,801
Net worth certificate notes (Note 4)	44,025	-0-
Assistance agreement notes	19,854,123	18,750,275
Accrued assistance agreement costs	2,213,847	376,324
Accrued interest	551,421	243,233
Other liabilities to savings institutions	410,528	414,268
	$ 23,941,545	$ 20,711,701

Maturities of these liabilities for each of the next five years and thereafter are (in thousands):

1990	1991	1992	1993	1994	1995/thereafter
$5,517,923	$297,833	$318,108	$1,931,778	$303,885	$15,572,018

8. Liabilities for Estimated Assistance:

The "Liabilities for estimated assistance" line item represents, on a discounted basis, an estimate of future assistance payments to acquirers of troubled thrift institutions. Such future assistance stems from the FRF's obligation to: (1) fund losses inherent in assets covered under the assistance agreement (e.g., by subsidizing asset write-downs, capital losses and goodwill amortization), and (2) supplement the actual yield earned from covered assets as necessary for the acquirer to achieve a specified yield (the "guaranteed yield"). The discount rates applied as of December 31, 1989 and August 9, 1989 were 7.98 percent and 9.86 percent, respectively. The August 9, 1989 rate was based on FICO borrowing rates, whereas the December 31, 1989 rate is based on U. S. Treasury 7-year constant maturities. This rate change more accurately reflects the FRF's cost of funding as of December 31, 1989. Except for the possible renegotiations and note adjustments described in Notes 7 and 15, there will be no new assistance agreements or modifications. There were 202 assistance agreements outstanding as of December 31, 1989, the last of which currently expires in December 1998.

As discussed in Note 7, the results of inventory audits may alter the amount of certain promissory notes outstanding. Estimated notes payable adjustments based on draft audit reports are first reported as a component of the "Liabilities for estimated assistance" line item until the notes are actually reissued, at which time the actual adjustments are then reported in the line item "Liabilities incurred from assistance and failures". As of December 31, 1989 and August 9, 1989, estimated notes payable adjustments included in this line item were $1.4 billion and $513 million, respectively.

The estimated assistance liabilities are affected by several factors including expected notes payable adjustments, the terms of the assistance agreements outstanding, and, in particular, the salability of the related covered assets. The variable nature of the FRF assistance agreements will cause the cost requirements to fluctuate. This fluctuation will impact both the timing and amount of eventual cash payments. Although the "Liabilities for estimated assistance" line item is presented on a discounted basis, the following schedule details the projected timing of the future cash payments (in thousands) as of December 31, 1989 on a nominal dollar basis:

1990	1991	1992	1993	1994	1995/thereafter
$6,782,981	$3,629,525	$3,156,392	$2,587,263	$2,072,141	$7,160,048

9. Analysis of Losses (in thousands):

	August 9 1989	Provision For Losses	Net Cash Payments	Adjustments	December 31 1989
Due from receiverships	$ 9,529,783	$ (13,207)	$ -0-	$ (1,529)	$ 9,515,047
Due from insured institutions	214,401	190,286	-0-	-0-	404,687
Corporate owned assets	2,667,533	-0-	-0-	6,366	2,673,899
Investment in FADA	5,874	3,345	-0-	-0-	9,219
Liabilities for estimated assistance	19,920,542	5,195,757	(1,882,428)	(3,186,177)	20,047,694
Estimated losses from litigation	-0-	103,000	-0-	-0-	103,000
	$32,338,133	$5,479,181	$(1,882,428)	$(3,181,340)	$32,753,546

The adjustments column includes necessary adjustments to allowance for losses and estimated liabilities for reclassifications, transfers and audit adjustments. The adjustment of $3,186,177 to the "Liabilities for estimated assistance" includes reclassifications to the statement of financial position line item "Liabilities incurred from assistance and failures" for notes payable and accrued assistance agreement costs of $1,368,238 and $1,837,522, respectively.

10. Resolution Equity (in thousands):

	Contributed Capital	Accumulated Deficit
Balance August 9, 1989	**$ -0-**	**$ (29,794,191)**
Net Loss		**(6,092,203)**
Issuance of capital certificates (09/28/89)	670,000	-0-
Treasury payment (12/15/89)	620,000	-0-
Treasury payment (12/27/89)	539,000	-0-
Balance December 31, 1989	**$ 1,829,000**	**$ (35,886,394)**

The Accumulated Deficit carried over from the FSLIC at August 9, 1989 includes $7.5 billion in non-redeemable capital certificates and redeemable capital stock. These capital instruments were issued by the FSLIC to the Financing Corporation (FICO) as a means of obtaining capital. In order to meet its fourth quarter obligations, the FRF issued an additional $670 million in capital certificates to the FICO. However, due to the availability of U. S. Treasury payments to satisfy FRF obligations, no additional borrowings from the FICO are anticipated. Furthermore, the implementation of FIRREA has effectively removed the redemption characteristics of the capital stock issued by the FSLIC.

11. Assessments:

In September 1989, the FDIC allowed for a one-time, transition assessment against SAIF members to change such members' premium assessment due dates to a semiannual basis. This special assessment available from SAIF members totalled $393,827,000, of which $295,000,000 was claimed by the Financing Corporation for debt servicing needs. Remaining funds of $98,827,000, in addition to interest earned thereon, were provided to the FRF in the absence of assessment authority by the Resolution Funding Corporation on the transition assessment date.

The transition assessment against SAIF members yielded the following results (in thousands):

Gross SAIF member assessments due	$ 639,565
Less: Secondary Reserve offset	(64,982)
Other adjustments/credits	(180,756)
Net SAIF member assessments available	**393,827**
Less: FICO assessment	(295,000)
REFCORP assessment	-0-
Principal funds provided to the FRF	**$ 98,827**

Secondary Reserve Offset. Title II, Section 208 of FIRREA authorizes insured savings institutions to offset against any assessment premiums their pro rata share of amounts that were previously part of the FSLIC's "Secondary Reserve". FIRREA limits the allowable offset to 20 percent of an institution's remaining pro rata share for any calendar year beginning before 1993. After calendar year 1992, there is no limitation on the remaining offset amount. FIRREA also requires the FRF to pay in cash (or reduce an outstanding indebtedness) the remaining portion of the savings institution's full pro rata distribution when the institution loses its insured status through liquidation. The FRF establishes a payable to that institution or its receiver with a corresponding charge to expense. As of December 31, 1989, the FRF owed $765,119 to institutions whose insured status was terminated in 1989. The total Secondary Reserve credit at December 31, 1989 was $521,284,758. This amount will be reduced in future years by offsets against assessment premiums and by payments to savings institutions who lose their insured status.

12. Pension Plan and Accrued Annual Leave:

The FDIC eligible employees assigned to the FRF are covered by the Civil Service Retirement and Disability Fund. Matching employer contributions provided by the FRF for all eligible employees were approximately $1,465,000 for the period from inception (August 9, 1989) through December 31, 1989.

Although the FRF contributes a portion of pension benefits for eligible employees and makes the necessary payroll withholdings from them, the FRF does not account for the assets of the Civil Service Retirement and Disability Fund and does not have actuarial data with respect to accumulated plan benefits or the unfunded liability relative to its eligible employees. These amounts are reported by the U. S. Office of Personnel Management (OPM) and are not allocated to the individual employers. The OPM also accounts for all health and life insurance programs for retired eligible employees.

The FRF liability to employees for accrued annual leave is approximately $1,053,000 at December 31, 1989.

13. Commitments:

The FRF lease agreement commitments for office space are $20,835,000 for future years. The agreements contain escalation clauses resulting in adjustments, usually on an annual basis. Lease space expense from inception (August 9, 1989) through December 31, 1989 was $3,966,235.

Expected leased space fees for future years are as follows (in thousands):

1990	1991	1992	1993	1994
$6,557	$5,518	$4,439	$4,027	$294

14. FSLIC Guaranteed Advance Program:

The FSLIC had guaranteed repayment in the event of default on Federal Home Loan Bank (FHLBank) advances to certain insured institutions. These guarantees have subsequently been transferred to either the FRF or the RTC in accordance with FIRREA. Guarantees made to the FHLBanks generally cover advances that are secured. As of December 31, 1989, the FRF balance of guaranteed commitments was $304 million, which had been advanced to institutions by the FHLBanks. In the event that the FRF is called upon to honor these guarantees, the FRF records the amounts disbursed as a receivable and becomes subrogated to the rights of the FHLBank as a secured creditor. The FRF will not be issuing any future guarantees.

15. Subsequent Events:

As required by FIRREA, FADA was placed in receivership on February 5, 1990. However, due to outstanding litigation, a final liquidating dividend to the FRF, FADA's sole stockholder, will not be made until such time as FADA's litigation liability, if any, is determined.

Several assistance notes payable were reissued during 1990 for revised amounts based on the completion of inventory audits required under certain assistance agreements. As of December 31, 1989, the actual note net principal adjustments of $1.4 billion have been reclassified to the "Liabilities incurred from assistance and failures" line item from the "Liabilities from estimated assistance" line item. The related accrued interest payable of $124 million calculated through December 31, 1989 has been expensed.

The FRF has received U. S. Treasury payments of $7.1 billion through December 31, 1990, including $1.2 billion during calendar year 1989.

Public Law #101-507 was recently passed which appropriated $22 billion to the FRF for the fiscal year ending September 30, 1991. The funds may be used to prepay notes payable, accelerate write downs of covered assets, purchase covered assets, and/or renegotiate assistance contracts to reduce projected costs to the FRF. These statements do not reflect any potential uses of the $22 billion, because management cannot yet assess its impact on estimated future assistance payable to acquirers.

16. Supplementary Information Relating to the Statement of Cash Flows (in thousands):

Reconciliation of net income (loss) to net cash used by operating activities for the period from inception (August 9, 1989) through December 31, 1989:

Net Loss	**$ (6,092,204)**
Adjustments to reconcile net income to net cash used by operating activities:	
Provision for losses	5,479,181
Increase other assets	(38,783)
Decrease in accounts payable, accrued liabilities and other	(30,448)
Net cash disbursed for assistance and failures not affecting income	(1,490,893)
Accrual of assets and liabilities from assistance and failures	280,174
Net Cash Used by Operating Activities	**$ (1,892,973)**

Schedule of non-cash transactions from assistance and failures from inception (August 9, 1989) through December 31, 1989:

Increase (decrease) in net receivables from assistance and failures:	
Net worth certificates	$ (3,375)
Loans - collateralized	(60,000)
Total Increase (Decrease)	**(63,375)**
Decrease (increase) in liabilities incurred from assistance and failures:	
Notes payable - NWC	3,375
Notes payable - FHLB	60,000
Notes payable	(1,368,238)
Liabilities for estimated assistance	1,368,238
Total Decrease (Increase)	**$ 63,375**

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