Financial Statements and Notes

Office of the Comptroller of the Currency
Balance Sheets
As of September 30, 2003 and 2002

	FY 2003	FY 2002
Assets:		
Intragovernmental		
Fund balance with Treasury	$ 1,219,409	$ 2,102,024
Investments and related interest (Note 3)	432,705,466	387,918,577
Advances and prepayments	–	11,475
Total intragovernmental	**433,924,875**	**390,032,076**
Cash	26,092	26,092
Accounts receivable, net	432,773	347,191
Property and equipment, net (Note 4)	32,949,644	25,056,225
Advances and prepayments	1,381,230	1,610,244
Total Assets	**$468,714,614**	**$417,071,828**
Liabilities and Net Position		
Intragovernmental		
Accounts payable	$ 986,610	$ 825,485
Total intragovernmental	**986,610**	**825,485**
Accounts payable	17,230,071	13,699,436
Accrued payroll and employee benefits	13,472,232	10,986,038
Deferred revenue (Note 5)	117,048,226	109,745,735
Accrued annual leave	23,524,329	21,954,061
Post retirement benefit (Note 7)	9,079,706	8,183,025
Total liabilities	**181,341,174**	**165,393,780**
Net position (Note 8)	**$287,373,440**	**$251,678,048**
Total Liabilities and Net Position	**$468,714,614**	**$417,071,828**

The accompanying notes are an integral part of these financial statements.

Office of the Comptroller of the Currency
Statements of Net Cost
For the Years Ended September 30, 2003, and 2002

	FY 2003	FY 2002
Program Costs		
Charter National Banks		
Intragovernmental	$ 1,725,149	$ 1,574,820
With the Public	9,917,892	9,744,747
Subtotal-Charter National Banks	**$ 11,643,041**	**11,319,567**
Regulate National Banks		
Intragovernmental	$ 3,842,098	$ 3,472,050
With the Public	22,088,240	21,484,513
Subtotal-Regulate National Banks	**$ 25,930,338**	**$ 24,956,563**
Supervise National Banks		
Intragovernmental	$ 57,407,843	$ 50,142,410
With the Public	330,039,391	310,273,531
Subtotal-Supervise National Banks	**$387,447,234**	**$360,415,941**
Analyze Risk		
Intragovernmental	$ 3,864,727	$ 3,579,323
With the Public	22,218,335	22,148,299
Subtotal-Analyze Risk	**$26,083,062**	**25,727,622**
Total Program Costs	**$451,103,675**	**$422,419,693**
Less: Earned revenues not attributed to programs	(466,110,295)	(442,655,111)
Net Cost of Operations	**$(15,006,620)**	**$(20,235,418)**

The accompanying notes are an integral part of these financial statements.

Office of the Comptroller of the Currency
Statements of Changes in Net Position
For the Years Ended September 30, 2003 and 2002

	FY 2003	FY 2002
Beginning Balances	$ 251,678,048	$ 213,769,210
Other Financing Sources		
Imputed financing from costs absorbed by others (Note 7)	20,688,772	17,673,420
Net Cost of Operations	15,006,620	20,235,418
Ending Balances	**$ 287,373,440**	**$ 251,678,048**

The accompanying notes are an integral part of these financial statements.

Office of the Comptroller of the Currency
Statements of Budgetary Resources
For the Years Ended September 30, 2003 and 2002

	FY 2003	FY 2002
Budgetary Resources		
Unobligated balance		
Beginning of Period	$ 312,757,649	$281,479,230
Spending Authority from offsetting collections:		
Earned		
Collected	471,264,186	448,885,271
Receivable from Federal Sources	229,167	(204,323)
Subtotal	471,493,353	448,680,948
Total Budgetary Resources	**$784,251,002**	**$ 730,160,178**
Status of Budgetary Resources		
Obligations incurred	$ 444,261,622	$ 417,402,529
Unobligated balance available	339,989,380	312,757,649
Total Status of Budgetary Resources	**$ 784,251,002**	**$ 730,160,178**
Relationship of Obligations to Outlays		
Obligated Balance, net, beginning of period	67,315,029	63,078,883
Obligated Balance, net, end of period:		
Interest Receivable	(5,120,625)	(4,891,458)
Undelivered Orders	23,467,361	17,378,278
Accounts Payable and Accruals, net of assessment refunds	64,292,948	54,828,210
Outlays:		
Disbursements	$ 428,707,802	$ 413,370,706
Collections	(471,264,186)	(448,885,271)
Net Collections in Excess of Disbursements	**$(42,556,384)**	**$(35,514,565)**

The accompanying notes are an integral part of these financial statements.

Office of the Comptroller of the Currency
Statements of Financing
For the Years Ended September 30, 2003 and 2002

	FY 2003	FY 2002
Resources Used to Finance Activities		
Budgetary Resources Obligated		
Obligations Incurred	$ 444,261,622	$ 417,402,529
Less: Spending authority from offsetting collections	(471,493,353)	(448,680,948)
Net obligations	(27,231,731)	(31,278,419)
Other Resources		
Imputed financing from costs absorbed by others (Note 7)	20,688,772	17,673,420
Total resources used to finance activities	**(6,542,959)**	**(13,604,999)**
Resources Used to Finance Items not Part of the Net Cost of Operations		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided	(5,848,595)	(6,460,430)
Resources that finance the acquisition of assets	(14,685,716)	(11,474,517)
Other resources or adjustments to net obligated resources that do not affect net cost of operations	(85,582)	(54,064)
Total resources used to finance items not part of the net cost of operations	**(20,619,893)**	**(17,989,011)**
Total resources used to finance the net cost of operations	**(27,162,852)**	**(31,594,010)**
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period		
Components Requiring or Generating Resources in Future Periods:		
Change in Deferred Revenue	7,302,491	9,500,951
Change in Assessment Refunds	(819,835)	819,836
Total components that will require or generate resources in future periods	6,482,656	10,320,787
Components not Requiring or Generating Resources:		
Increase in Accumulated Depreciation	6,792,297	5,209,402
Net Increase in Bond Premium	(1,118,721)	(4,240,884)
Other	–	69,287
Total components that will not require or generate resources	5,673,576	1,037,805
Total components of net cost of operations that will not require or generate resources in the current period	**12,156,232**	**11,358,592**
Net Cost of Operations	**$ (15,006,620)**	**$ (20,235,418)**

The accompanying notes are an integral part of these financial statements.

Note 1—Organization

The OCC was created as a bureau within the U.S. Department of the Treasury by an act of Congress in 1863. The OCC was created for the purpose of establishing and regulating a system of federally chartered national banks. The National Currency Act of 1863, rewritten and reenacted as the National Bank Act of 1864, authorized the OCC to supervise national banks and to regulate the lending and investment activities of federally chartered institutions.

The OCC's revenue is derived primarily from assessments and fees paid by national banks and income on investments in U.S. government securities. The OCC does not receive congressional appropriations to fund any of its operations. Therefore, the OCC does not have any unexpended appropriations.

By federal statute 12 USC 481, the OCC's funds are maintained in a U.S. government trust revolving fund. The funds remain available to cover the annual costs of the OCC's operations in accordance with policies established by the Comptroller.

The OCC collects CMPs due to the federal government that are assessed through court enforced legal actions against a national bank and/or its officers. CMP collections transferred to the Department's General Fund amounted to $951,089 in FY 2003, and $10,175,092 in FY 2002. The decrease was primarily due to a one-time penalty of $10 million collected in FY 2002. Outstanding CMPs at September 30, 2003 and 2002, amounted to $2,014,502 and $1,218,534, respectively.

The Departmental Offices (DO), another entity of the U.S. Department of the Treasury, provides certain administrative services to the OCC. The OCC pays the DO for services rendered pursuant to established interagency agreements. Administrative services provided by the DO totaled $2,444,650 in FY 2003, and $2,081,306 in FY 2002.

Note 2—Significant Accounting Policies

Basis of Accounting

The OCC's financial statements have been prepared from the OCC's accounting records in conformity with generally accepted accounting principles in the United States of America (GAAP). The financial statements consist of a balance sheet, and the statements of net cost, changes in net position, budgetary resources, and financing. These financial statements are presented on a comparative basis providing information for FYs 2003 and 2002.

The financial statements reflect both the accrual and budgetary bases of accounting. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to cash receipt or payment. The budgetary method recognizes the obligation of funds according to legal requirements, which, in many cases, is made prior to the occurrence of an accrual-based transaction. Budgetary accounting is essential for compliance with legal constraints and controls over the use of federal funds.

Fund Balance with Treasury

The OCC's cash receipts and disbursements are processed by the U.S. Treasury. Sufficient funds are maintained in a U.S. government trust revolving fund and are available to pay current liabilities. The OCC invests all the funds that are not immediately needed in U.S. government securities (Note 3).

Accounts Receivable, net

Accounts receivable represent monies owed to the OCC for services and goods provided. Accounts receivable are reduced to their net realizable value by an Allowance for Doubtful Accounts. The OCC reserves an allowance equal to 100 percent of accounts with outstanding balances exceeding one year, and 50 percent of accounts with balances exceeding six months but less than one year. At September 30, 2003 and 2002, accounts receivable amounted to $451,767 less an allowance of $18,994, and $366,215 less an allowance of $19,024, respectively.

Advances and Prepayments

Advances and prepayments to other government agencies represent amounts paid to the DO prior to the receipt of goods and services. Advances and prepayments to the public consist of rent and insurance paid. The amounts are recorded as prepaid expenses at the time of payment and are expensed when related goods and services are received.

Liabilities

Liabilities represent the amounts owing or accruing under contractual or other arrangements governing the transactions, including operating expenses incurred but not yet paid. Payments are made in a timely manner in accordance with the Prompt Payment Act. Interest penalties are paid when payments are late. Discounts are taken when cost effective, and the invoice is paid by the discount date.

Annual, Sick, and Other Leave

Annual leave is accrued and funded by the OCC as it is earned, and the accrual is reduced as leave is taken or paid. Each year, the balance in the accrued annual leave account is adjusted to reflect current pay rates. Sick leave and other types of leave are expended as taken.

Use of Estimates

The preparation of financial statements, in accordance with GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Such estimates and assumptions could change in the future as more information becomes known, which could affect the amounts reported and disclosed herein.

Note 3—Investments and Related Interest

Investments are U.S. Treasury securities stated at amortized cost and the related accrued interest. The OCC plans to hold these investments to maturity. Premiums and discounts are amortized over the term of the investment using the straight-line method, which approximates the effective yield method. The fair market value of investment securities was $434,739,500 at September 30, 2003, and $392,537,740 at September 30, 2002.

Investments and Related Interest Receivable

	FY 2003	FY 2002
Cost	$421,407,000	$378,468,000
Net Unamortized Premium	6,177,841	4,559,119
Net Amortized Value	427,584,841	383,027,119
Interest Receivable	5,120,625	4,891,458
Total	**$432,705,466**	**$387,918,577**

FY 2003 Investment Portfolio

Maturity	Par Value	Coupon Rate
Overnight	$177,407,00	0.950%
During 2003	55,000,000	4.250%
During 2004	40,000,000	5.250%
	55,000,000	5.875%
During 2005	40,000,000	6.500%
	29,000,000	5.750%
During 2006	25,000,000	6.875%
Total	**$421,407,000**	

FY 2002 Investment Portfolio

Maturity	Par Value	Coupon Rate
Overnight	$134,468,000	1.900%
During 2002	80,000,000	5.750%
During 2003	55,000,000	4.250%
During 2004	55,000,000	5.875%
During 2005	29,000,000	5.750%
During 2006	25,000,000	6.875%
Total	**$378,468,000**	

Note 4—Property and Equipment, net

Property and equipment purchased at a cost greater than or equal to the noted thresholds below with useful lives of five years or more are capitalized at cost and depreciated or amortized, as applicable.

Leasehold improvements are amortized on a straight-line basis over the lesser of the terms of the related leases or their estimated useful lives. All other property and equipment are depreciated or amortized, as applicable, on a straight-line basis over their estimated useful lives. The tables presented below summarize property and equipment balances as of September 30, 2003, and 2002.

FY 2003 Property and Equipment, net

Class of Assets	Capitalization Threshold/ Useful Life	Cost	Accumulated Depreciation	Net Book Value
Leasehold Improvements	$50,000 5–20	$25,277,761	$(16,885,879)	$8,391,882
Equipment	50,000 5–10	9,590,672	(6,091,601)	3,499,071
Furniture and Fixtures	50,000 5–10	1,336,779	(843,805)	492,974
Internal Use Software	500,000 5–10	21,876,063	(5,603,148)	16,272,915
Internal Use Software-Dev.	500,000 5–10	4,292,802	–	4,292,802
Total		**$62,374,077**	**$(29,424,433)**	**$32,949,644**

FY 2002 Property and Equipment, net

Class of Assets	Capitalization Threshold/ Useful Life	Cost	Accumulated Depreciation	Net Book Value
Leasehold Improvements	$50,000 5–20	$23,283,734	$(14,357,099)	$8,926,635
Equipment	50,000 5–10	6,414,633	(4,193,900)	2,220,733
Furniture and Fixtures	50,000 5–10	1,035,514	(723,252)	312,262
Internal Use Software	500,000 5–10	13,248,076	(3,357,885)	9,890,191
Internal Use Software-Dev	500,000 5–10	3,706,404	–	3,706,404
Total		**$47,688,361**	**$(22,632,136)**	**$25,056,225**

Note 5—Deferred Revenue

The OCC's activities are primarily financed by assessments on assets held by national banks and the federal branches of foreign banks. These assessments are due January 31 and July 31 of each year based on asset balances as of call dates on December 31 and June 30, respectively. Assessments are paid in advance and are recognized as earned revenue on a straight-line basis over the six months following the call date. The unearned portions are reduced accordingly.

Note 6—Leases

The OCC leases office space for headquarters operations in Washington, D.C., and for district and field operations. The lease agreements expire at various dates through 2009. These leases are treated as operating leases. In FY 2003, operating lease payments decreased due to office consolidations.

FY 2003 Future Lease Payments

Year	Amount
2004	$21,827,454
2005	19,666,349
2006	13,841,164
2007	4,437,938
2008	3,844,151
2009 and beyond	14,705,613
Total	**$78,322,669**

FY 2002 Future Lease Payments

Year	Amount
2003	$22,333,599
2004	19,126,850
2005	17,131,332
2006	11,491,191
2007	2,408,777
2008 and beyond	6,850,754
Total	**$79,342,503**

Note 7—Retirement Plans and Other Benefits

Retirement

OCC employees are eligible to participate in one of two retirement plans. Employees hired prior to January 1, 1984, are covered by the CSRS, unless they elected to join the FERS and Social Security during the election period. Employees hired after December 31, 1983, are automatically covered by FERS and Social Security. OCC contributions to CSRS were $6,839,400 in FY 2003 and $7,805,035 in FY 2002. For employees covered by CSRS, the OCC contributes 7.0 percent of their adjusted base pay to the plan, compared to 8.51 percent during FY 2002. For employees covered by FERS, the OCC contributes 10.7 percent of their adjusted base salary. OCC contributions totaled $14,390,270 in FY 2003, and $13,490,210 in FY 2002.

Furthermore, the OPM contributed an additional $20,688,772 toward these retirement plans during FY 2003, and $17,673,420 in FY 2002. The OCC recognized these contributions as "Imputed Costs Absorbed by Others" and an offset in equal amount to "Imputed Financing from Costs Absorbed by Others" as a result of not having to reimburse the OPM.

The OCC does not report in its financial statements information pertaining to the retirement plans covering its employees. Reporting amounts, such as plan assets, accumulated plan benefits, or unfunded liabilities, if any, are presently the responsibility of the OPM.

Other Benefits

OCC employees are eligible to participate in the Federal Thrift Savings Plan (TSP). For those employees under FERS, a TSP account is automatically established, and the OCC contributes a mandatory one percent of adjusted base pay to this account. In addition, the OCC matches employee contributions up to an additional four percent of pay, for a maximum OCC contribution amounting to five percent of adjusted base pay. Employees under CSRS may participate in the TSP, but do not receive the automatic (one percent) and matching employer contributions. The OCC's contributions for the TSP totaled $6,132,018 in FY 2003, and $5,749,904 in FY 2002. The OCC also contributed a total of $11,731,468 for Social Security and Medicare benefits for all eligible employees in FY 2003, and $11,045,830 in FY 2002.

Employees can elect to contribute up to 10 percent of their adjusted base salary in the OCC 401(K) Plan, subject to Internal Revenue regulations. Prudential Securities Incorporated currently administers the plan. Beginning in January 2003, the OCC contributes a fixed two percent of the adjusted base salary to the plan for all participating employees, compared to a one percent contribution in previous years. Approximately 2,400 employees are currently enrolled in the plan, which represents a participation rate exceeding 85 percent. The total cost of the OCC's matching contribution plus associated administration fees amounted to $3,425,093 during FY 2003, and $2,079,283 in FY 2002.

The OCC sponsors a life insurance benefit plan for current and former employees. This plan is a defined benefit plan. Premium payments made during FY 2003 totaled $134,477, and $110,524 in FY 2002.

Accrued Post-Retirement Benefit Cost and Net Periodic Post-Retirement Benefit Cost

Component	FY 2003	FY 2002
Accumulated Post-Retirement Benefit Obligation	$(10,979,016)	$(9,094,149)
Unrecognized Transition Obligation	1,555,545	1,728,382
Unrecognized Net Gain	343,765	(817,258)
Total	**$(9,079,706)**	**$(8,183,025)**
Service Cost	$403,456	$311,064
Interest Cost	599,490	527,384
Amortization of Gain	–	(136,536)
Amortization of Transition Obligation	172,837	172,837
Total	**$1,175,783**	**$874,749**

The weighted-average discount rate used in determining the accumulated post-retirement benefit obligation was 7.5 percent. Gains or losses due to changes in actuarial assumptions are amortized over the service life of the plan.

Employees and retirees of the OCC are eligible to participate in Federal Employees Health Benefits (FEHB) and Federal Employees Group Life Insurance (FEGLI) plans that involve a cost sharing of bi-weekly coverage premiums by employee and employer. Both of these employee benefit plans are administered by the OPM. Total OCC contributions for active employees who participate in the FEHB plans were $12,577,572 for FY 2003, and $11,319,414 for FY 2002. OCC contributions for active employees who participate in the FEGLI plan were $201,440 for FY 2003, and $196,516 for FY 2002.

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for the OCC's employees under FECA are administered by the U.S. Department of Labor (DOL) and later billed to the OCC. The OCC accrued $5,366,500 of workers' compensation costs as of September 30, 2003, and $4,390,674 as of September 30, 2002. This amount includes unpaid costs and an actuarial estimated liability for unbilled costs incurred as of year-end calculated by the DOL.

Note 8—Net Position

The OCC sets aside a portion of its Net Position as Special and Contingency Reserves to be used at the discretion of the Comptroller. In addition, funds are set aside to cover on-going cost of operations.

The Special Reserve supplements revenue from assessments and other sources that are made available to fund the OCC's annual budget. The Special Reserve serves to reduce the impact on operations of unforecasted revenue shortfalls or unbudgeted and unanticipated requirements or opportunities. The Special Reserve was reduced in FY 2003 to provide funding for the OCC's district restructuring efforts.

The Contingency Reserve supports the OCC's ability to accomplish its mission in the case of unforeseeable but rare events. Unforeseeable but rare events are beyond the control of the OCC, such as a major change in the national banking system, or a disaster, such as a fire, flood, or significant impairment of its information technology systems.

Net Position Availability

Component	FY 2003	FY 2002
Contingency Reserve	$196,479,819	$178,554,013
Special Reserve	10,856,000	15,000,000
Earmarked for On-going Operations:		
Undelivered Orders	23,467,361	17,378,278
Consumption of Assets	40,964,927	32,107,691
Capital Investments	5,426,982	6,138,066
District Offices Restructuring	10,178,351	2,500,000
Net Position	**$287,373,440**	**$251,678,048**

The FY 2004 budget established a replacement reserve in the amount of $17,532,950. This reserve will incrementally fund the replacement of IT equipment ($3,830,950), and leasehold improvements and furniture replacements ($13,702,000) for future years. The amount in the replacement reserve is determined based on the cost of replacement and the useful life of the assets, and will be reassessed each year during the budget formulation cycle.

Note 9—Expenses by Budget Object Classification

The following table illustrates the OCC's costs by major budget object class for FYs 2003 and 2002.

Budget Object Class	FY 2003	FY 2002
Personnel Compensation	$246,172,715	$232,359,148
Personnel Benefits	66,326,330	60,160,137
Benefits to Former Employees	3,359,129	520,099
Travel and Transportation of Persons	26,347,257	25,393,310
Travel and Transportation of Things	1,521,893	830,647
Rent, Communication, and Utilities	32,989,698	33,449,836
Printing and Reproduction	608,477	929,212
Other Contractual Services	34,648,286	37,708,589
Supplies and Materials	2,974,034	2,253,706
Equipment	8,478,600	5,548,567
Land and Structures	128,173	349,433
Insurance Claims and Indemnities	68,014	34,187
Depreciation	6,792,297	5,209,402
Imputed Costs	20,688,772	17,673,420
Total	**$451,103,675**	**$422,419,693**

Note 10—Contingencies

The OCC is reviewing potential contingencies, which may result from the effect of certain policies and procedures currently in place. In the opinion of the OCC's management and legal counsel, the ultimate result of these potential contingencies will not materially affect the financial statements of the OCC.