

CUMMINS INC
Form 11-K
July 01, 2003

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549**

FORM 11-K

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the Fiscal Year Ended December 31, 2002

CUMMINS INC.

(Name of issuer of the securities held pursuant to the plan)

Indiana
(State or other Jurisdiction of
Incorporation)

1-4949
(Commission File Number)

35-0257090
(I.R.S. Employer Identification No.)

**500 Jackson Street
P. O. Box 3005
Columbus, IN 47202-3005**

(Principal Executive Office) (Zip Code)

(812) 377-5000
(Registrant's telephone number, including area code)

NELSON RETIREMENT AND SAVINGS PLAN

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

DECEMBER 31, 2002

(Full title of the plan)

NELSON RETIREMENT AND SAVINGS PLAN

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* As the Plan is a member of the Cummins Inc. and Affiliates Retirement and Savings Plans Master Trust ("Master Trust"), the schedules of assets (held at end of year), at December 31, 2002 and of reportable transactions for the year ended December 31, 2002 of the Master Trust have been certified by the Master Trustee and have been separately filed with the Department of Labor. Other Supplemental Schedules not filed herewith are omitted because of the absence of the conditions under which they are required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

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INDEPENDENT AUDITOR'S REPORT

To the Benefits Policy Committee and
Participants of the Nelson Retirement
and Savings Plan
Columbus, Indiana

We have audited the accompanying statement of net assets available for benefits of the Nelson Retirement and Savings Plan (the "Plan") as of December 31, 2002, and the related statement of changes in net assets available for benefits for the year ended December 31, 2002. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2002, and the changes in net assets available for benefits for the year ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

BLUE & CO., LLC

June 16, 2003

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NELSON RETIREMENT AND SAVINGS PLAN
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
DECEMBER 31, 2002

Assets:	
Investment in Cummins Inc. and Affiliates Retirement and Savings Plans Master Trust, at fair value	\$ 6,194,454
Receivables:	
Employee contributions	<u>32,415</u>
Total assets	6,226,869
Liabilities:	
Excess contributions refundable	<u>32,612</u>
Net assets available for benefits	\$ 6,194,257
See accompanying notes to financial statements.	

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NELSON RETIREMENT AND SAVINGS PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
YEAR ENDED DECEMBER 31, 2002

Additions:	
Employee contributions	\$ 1,821,047
Deductions:	
Plan interest in Cummins Inc. and Affiliates Retirement and Savings Plans Master Trust investment loss	1,368,625
Benefits paid to participants	<u>404,529</u>
Total deductions	1,773,154
Fund transfer from Cummins Inc. and Affiliates Retirement and Savings Plan for Salaried and Non-Bargaining Hourly Employees	<u>6,146,364</u>

Net increase in net assets available for benefits	6,194,257
Net assets available for benefits:	
Beginning of year	<u>-0-</u>
End of year	\$ 6,194,257

See accompanying notes to financial statements.

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NELSON RETIREMENT AND SAVINGS PLAN

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2002

1. DESCRIPTION OF THE PLAN

The following description of the Nelson Retirement and Savings Plan (the "Plan") provides only general information. Participants should refer to the Plan document for a more complete description of the Plan's provisions.

General

The Plan is a defined contribution plan designed to provide participants with a systematic method of savings and at the same time enable such participants to benefit from contributions made to the Plan by Cummins Inc. and Affiliates (collectively, the "Company"). Eligible employees are employees of Nelson Industries, Inc. ("Nelson"). The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"). Effective January 1, 2002, assets of participants that are employees of Nelson were spun out of the Cummins Inc. and Affiliates Retirement and Savings Plan for Salaried and Non-Bargaining Hourly Employees in the amount of \$6,146,364 for the creation of this Plan.

Master Trust

The Cummins Inc. and Affiliates Retirement and Savings Plans Master Trust ("Master Trust") holds the assets of the Plan and the following Company-sponsored plans:

- Cummins Inc. and Affiliates Retirement and Savings Plan for Bargaining Unit Employees;
- Cummins Inc. and Affiliates Retirement and Savings Plan for ONAN Corporation Employees;
- Cummins Inc. and Affiliates Retirement and Savings Plan for Lubricant Consultants, Inc. Employees;
- Cummins Inc. and Affiliates Retirement and Savings Plan for Consolidated Diesel Company, Inc. Employees; and
- Cummins Inc. and Affiliates Retirement and Savings Plan for Salaried and Non-Bargaining Hourly Employees

The trustee for the Master Trust is The Vanguard Group.

Contributions

Participants may contribute up to 50% of their eligible pay through a combination of pre-tax and after-tax contributions. Participants may direct their contributions in any of thirteen investment options, including Cummins Inc. common stock.

NELSON RETIREMENT AND SAVINGS PLAN**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002**

Matching Contribution

The Company made no matching contributions to the Plan during 2002. Prior to May 1, 2002, Company matching contributions in the form of Company stock could not be reinvested into other investment options until the participant is 55 years of age. On May 1, 2002, the Company started removing restrictions on the reinvestment of stock received as a Company match. At December 31, 2002, 80% of Company stock received as a match was available for diversification. Subsequent to February 1, 2003, the entire amount of Company stock received as a match is available for diversification.

Participant Accounts

Each participant's account is credited with the participant's contributions, the Company's contributions and an allocation of Plan earnings. Allocations of Plan earnings are made daily and are based upon the participant's weighted average account balance for the day, as described in the Plan document.

Vesting

Participants are fully vested in all employee and employer contributions and earnings thereon at all times.

Benefit Payments

Upon termination of employment or retirement, account balances are paid either as a lump-sum distribution or annual installments not to exceed the lesser of 15 years or the life expectancy of the participant and or joint life expectancy of the participant and beneficiary, and commence no later than the participant reaching age 70-1/2. The Plan also permits hardship withdrawals from participant pre-tax contributions and actual earnings thereon. Participants may also withdraw their after-tax contributions.

Voting Rights

Each participant is entitled to exercise voting rights attributable to the Company shares allocated to his or her account. The Trustee shall vote all Company shares for which no voting instructions were received in the same manner and proportion as the shares for which voting instructions were received.

Participant Loans

A participant can obtain a loan up to a maximum of the lesser of \$50,000 or 50% of the participant's account balance. Loans are secured by the participant's account balance and bear interest at the prime rate plus one percent, and mature no later than 4½ years from the date of the loan.

NELSON RETIREMENT AND SAVINGS PLAN

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002**

Plan Termination

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Plan have been prepared on an accrual basis of accounting.

Investments

The Plan's investment in the Master Trust is stated at fair value based on the fair value of the underlying investments of the Master Trust, determined primarily by quoted market prices, except for the fixed income fund. The fixed income fund consists primarily of insurance contracts and bank investment contracts with various insurance companies and is stated at contract value as the investments are fully benefit-responsive. The contract values represent contributions made under the contracts, plus earnings, less withdrawals and administrative expenses. Withdrawals or transfers from the fund are valued at contract value.

Allocation of Master Trust Assets and Transactions

The investment income and expenses of the Master Trust are allocated to each plan based on the relationship of the Plan's investment balances to the total Master Trust investment balances.

Use of Estimates

The preparation of financial statements, in accordance 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, liabilities, and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Risks and Uncertainties

The Master Trust invests in various securities. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

Administrative Expenses

Substantially all costs of administering the Plan are paid by the Company.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002**

3. INVESTMENTS IN MASTER TRUST

The Plan's investments are held in the Master Trust. The assets of the Master Trust are held by The Vanguard Group. At December 31, 2002, the Plan's interest in the net assets of the Master Trust was 0.8%. The following investments are held by the Master Trust as of December 31, 2002:

Cummins Inc. common stock fund	\$ 127,464,060
Fixed income fund	284,260,001
Registered investment companies	374,857,991
Participant loans	<u>12,602,563</u>
Total	\$ 799,184,615

Investment income (loss) for the Master Trust for the year ended December 31, 2002 is as follows:

Net depreciation in fair value of investments:

Cummins Inc. common stock	\$ (36,304,709)
Registered investment companies	(92,442,068)
Interest	16,430,601
Dividends	4,816,054

4. TAX STATUS

The Plan has not received a determination letter. The Company and its counsel believe that the Plan is currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code. Therefore, no provision for income taxes has been included in the Plan's financial statements.

5. RELATED PARTY TRANSACTIONS

Certain Master Trust investments are shares of mutual funds managed by The Vanguard Group, and shares of Cummins Inc. The Vanguard Group is the trustee of the Master Trust and Cummins Inc. is the Plan Sponsor; therefore, transactions with these parties qualify as party-in-interest transactions.

6. CONTINGENCY

The Cummins Inc. and Affiliates Retirement and Savings Plan for Salaried and Non-Bargaining Hourly Employees, from which the Plan was spun out effective January 1, 2002, is currently undergoing an audit by the Internal Revenue Service for plan years 1999 through 2001. As this audit is not yet complete, the financial statements do not reflect any potential liability related to this audit. In addition, the Company is not aware of any potential plan disqualification issues that have arisen during this audit.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

NELSON RETIREMENT AND SAVINGS PLAN

(Name of Plan)

By _____
David C. Wright
Secretary - Benefits
Policy Committee

Date: June 30, 2003