# Federal Financial Institutions Examination Council

Financial Statements as of and for the Years Ended December 31, 2010 and 2009, and Independent Auditors' Report

**FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL**

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## INDEPENDENT AUDITORS' REPORT

To the Federal Financial Institutions Examination Council:

We have audited the accompanying balance sheets of the Federal Financial Institutions Examination Council (the "Council") as of December 31, 2010 and 2009, and the related statements of revenues and expenses and changes in cumulative results of operations, and cash flows for the years then ended. These financial statements are the responsibility of the Council's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained *in Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Federal Financial Institutions Examination Council as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2011, on our consideration of the Council's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte + Touche LLP

February 28, 2011

# FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

**BALANCE SHEETS**
**AS OF DECEMBER 31, 2010 AND 2009**

| | 2010 | 2009 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS: | | |
| Cash | $ 746,815 | $ 1,022,700 |
| Accounts receivable from member organizations | 1,276,250 | 1,001,002 |
| Other accounts receivable — net | 104,441 | 90,628 |
| Total current assets | 2,127,506 | 2,114,330 |
| NONCURRENT ASSETS: | | |
| Furniture and equipment — at cost | 219,484 | 118,390 |
| Central Data Repository software — at cost | 19,371,661 | 18,231,272 |
| Home Mortgage Disclosure Act software — at cost | 2,783,868 | 2,344,680 |
| Less accumulated depreciation | (12,704,895) | (10,827,552) |
| Net capital assets | 9,670,118 | 9,866,790 |
| TOTAL ASSETS | $ 11,797,624 | $ 11,981,120 |
| **LIABILITIES AND CUMULATIVE RESULTS OF OPERATIONS** | | |
| CURRENT LIABILITIES: | | |
| Accounts payable and accrued liabilities payable to member organizations | $ 839,152 | $ 981,180 |
| Other accounts payable and accrued liabilities | 988,059 | 927,051 |
| Accrued annual leave | 27,746 | 20,117 |
| Capital lease payable | 37,828 | 16,815 |
| Deferred revenue | 2,746,667 | 1,856,180 |
| Total current liabilities | 4,639,452 | 3,801,343 |
| LONG-TERM LIABILITIES: | | |
| Capital lease payable | 142,202 | 80,576 |
| Deferred revenue | 6,746,128 | 7,913,219 |
| Deferred rent | 6,605 | |
| Total long-term liabilities | 6,894,935 | 7,993,795 |
| Total liabilities | 11,534,387 | 11,795,138 |
| CUMULATIVE RESULTS OF OPERATIONS | 263,237 | 185,982 |
| TOTAL LIABILITIES AND CUMULATIVE RESULTS OF OPERATIONS | $ 11,797,624 | $ 11,981,120 |

See notes to financial statements.

# FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

## STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN CUMULATIVE RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

| | 2010 | 2009 |
|---|---|---|
| REVENUES: | | |
| Assessments on member organizations | $ 632,344 | $ 589,988 |
| Central Data Repository | 4,452,286 | 5,741,157 |
| Home Mortgage Disclosure Act | 3,433,075 | 3,071,973 |
| Tuition | 2,662,193 | 2,322,041 |
| Community Reinvestment Act | 1,024,844 | 1,013,110 |
| Uniform Bank Performance Report | 464,633 | 537,606 |
| Total revenues | 12,669,375 | 13,275,875 |
| EXPENSES: | | |
| Data processing | 4,529,275 | 4,370,506 |
| Professional fees | 3,635,374 | 3,674,379 |
| Salaries and related benefits | 1,739,031 | 1,468,414 |
| Depreciation | 1,877,343 | 2,943,660 |
| Rental of office space | 264,989 | 247,648 |
| Administration fees | 245,000 | 245,000 |
| Travel | 170,404 | 156,742 |
| Books and subscriptions | 1,656 | 18,985 |
| Other seminar expenses | 30,297 | 33,343 |
| Rental and maintenance of office equipment | 48,313 | 50,967 |
| Office and other supplies | 25,033 | 14,107 |
| Printing | 18,380 | 19,342 |
| Postage | 1,660 | 1,960 |
| Miscellaneous | 5,365 | 6,011 |
| Total expenses | 12,592,120 | 13,251,064 |
| RESULTS OF OPERATIONS | 77,255 | 24,811 |
| CUMULATIVE RESULTS OF OPERATIONS — Beginning of year | 185,982 | 161,171 |
| CUMULATIVE RESULTS OF OPERATIONS — End of year | $ 263,237 | $ 185,982 |

See notes to financial statements.

## FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

**STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

| | **2010** | **2009** |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Results of operations | $ 77,255 | $ 24,811 |
| Adjustments to reconcile results of operations to net cash provided by operating activities: | | |
| Depreciation | 1,877,343 | 2,943,660 |
| (Increase) decrease in assets: | | |
| Accounts receivable from member organizations | (275,247) | 571,133 |
| Other accounts receivable | (13,812) | 14,995 |
| Increase (decrease) in liabilities: | | |
| Accounts payable and accrued liabilities payable to member organizations | (77,379) | (319,538) |
| Other accounts payable and accrued liabilities | (162,453) | 642,017 |
| Accrued annual leave | 7,629 | (1,891) |
| Deferred revenue (current and non-current) | (276,603) | (199,161) |
| Deferred rent | 6,605 | - |
| Net cash provided by operating activities | 1,163,338 | 3,676,026 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Capital expenditures | (1,427,853) | (3,362,003) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Capital lease payments | (11,370) | - |
| NET (DECREASE) INCREASE IN CASH | (275,885) | 314,023 |
| CASH BALANCE — Beginning of year | 1,022,700 | 708,677 |
| CASH BALANCE — End of year | $ 746,815 | $ 1,022,700 |

See notes to financial statements.

## 1. ORGANIZATION AND PURPOSE

The Federal Financial Institutions Examination Council (the “Council”) was established under Title X of the Financial Institutions Regulatory and Interest Rate Control Act of 1978. The purpose of the Council is to prescribe uniform principles and standards for the federal examination of financial institutions and to make recommendations to promote uniformity in the supervision of these financial institutions. The five agencies which were represented on the Council during 2010, referred to hereinafter as member organizations, are as follows:

- Board of Governors of the Federal Reserve System (FRB)
- Federal Deposit Insurance Corporation (FDIC)
- National Credit Union Administration (NCUA)
- Office of the Comptroller of the Currency (OCC)
- Office of Thrift Supervision (OTS)

In accordance with the Financial Services Regulatory Relief Act of 2006, a representative state regulator was added as a full voting member of the Council in October 2006.

The Council was given additional statutory responsibilities by Section 340 of the Housing and Community Development Act of 1980, Public Law 96-399. Among these responsibilities are the implementation of a system to facilitate public access to data that depository institutions must disclose under the Home Mortgage Disclosure Act of 1975 (HMDA) and the aggregation of annual HMDA data, by census tract, for each metropolitan statistical area.

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) was signed into law. This legislation substitutes the director of the Consumer Financial Protection Bureau for the director of the Office of Thrift Supervision as a member of the Council effective July 21, 2011.

The Council’s financial statements do not include financial data for the Council’s Appraisal Subcommittee (the Subcommittee). The Subcommittee was created pursuant to Public Law 101–73, Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989. Although it is a subcommittee of the Council, the Appraisal Subcommittee maintains separate financial records and administrative processes. The Council is not responsible for any debts incurred by the Subcommittee, nor are Subcommittee funds available for use by the Council.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The Council prepares its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

**Revenues** — Assessments are made on member organizations to fund the Council's operations based on expected cash needs. Amounts over- or under- assessed due to differences between actual and expected cash needs are presented in the "Cumulative Results of Operations" line item during the year and then are used to offset or increase the next year's assessment. Deficits in "Cumulative Results of Operations" can be recouped in the following year's assessments.

The Council provides seminars in the Washington, D.C., area and at locations throughout the country for member organizations and other agencies. The Council also coordinates the production and distribution of the Uniform Bank Performance Reports (UBPR) through the FDIC. Tuition and UBPR revenue is adjusted at year-end to match expenses incurred as a result of providing education classes and UBPR services. For differences between revenues and expenses, member agencies are assessed an additional amount or credited a refund based on each member's proportional cost for the Examiner Education and UBPR budget. The Council also recognizes revenue from member agencies for expenses incurred related to the Community Reinvestment Act.

**Capital Assets** — Furniture and equipment is recorded at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, which range from four to ten years. Upon the sale or other disposition of a depreciable asset, the cost and related accumulated depreciation are removed and any gain or loss is recognized. The Central Data Repository (CDR) and the HMDA rewrite, internally developed software projects, are recorded at cost as required by the Internal Use Software Topic of Financial Accounting Standards Board (FASB) Accounting Standards Codification.

**Deferred Revenue** — Deferred revenue includes cash collected and accounts receivable primarily related to the CDR and HMDA.

**Deferred Rent** — The lease for office and classroom space contains scheduled rent increases over the term of the lease. As required by the Leases Topic of the FASB Accounting Standards Codification, rent abatements and scheduled rent increases must be considered in determining the annual rent expense to be recognized. The deferred rent represents the difference between the actual lease payments and the rent expense recognized.

**Estimates** — The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Allowance for Doubtful Accounts** — Accounts receivable for non-members are shown net of the allowance for doubtful accounts. Accounts receivable considered uncollectible are charged against the allowance account in the year they are deemed uncollectible. The allowance for doubtful accounts is adjusted monthly, based upon a review of outstanding receivables.

## 3. TRANSACTIONS WITH MEMBER ORGANIZATIONS

| | 2010 | 2009 |
|---|---|---|
| Accounts receivable: | | |
| Board of Governors of the Federal Reserve System | $ 290,047 | $ 209,922 |
| Federal Deposit Insurance Corporation | 467,726 | 439,609 |
| National Credit Union Administration | 47,501 | 48,593 |
| Office of the Comptroller of the Currency | 416,572 | 244,883 |
| Office of Thrift Supervision | 54,404 | 57,995 |
| | $1,276,250 | $1,001,002 |
| Accounts payable and accrued liabilities: | | |
| Board of Governors of the Federal Reserve System | $ 579,792 | $ 618,861 |
| Federal Deposit Insurance Corporation | 126,265 | 247,870 |
| National Credit Union Administration | 7,624 | 20,877 |
| Office of the Comptroller of the Currency | 124,321 | 72,103 |
| Office of Thrift Supervision | 1,150 | 21,469 |
| | $ 839,152 | $ 981,180 |
| Operations: | | |
| Assessments to member organizations for operating expenses | $ 632,344 | $ 589,988 |
| FRB provided administrative support services to the Council at an expense of | 245,000 | 245,000 |
| Member organizations provide data processing services to the Council at an expense of | 4,529,275 | 4,370,506 |

The Council does not directly employ personnel, but rather member organizations detail personnel to support Council operations. These personnel are paid through the payroll systems of member organizations. Salaries and fringe benefits, including retirement benefit plan contributions, are reimbursed to these organizations. The Council does not have any post-retirement or post-employment benefit liabilities since Council personnel are included in the plans of the member organizations.

Member organizations are not reimbursed for the costs of personnel who serve as Council members and on the various task forces and committees of the Council. The value of these contributed services is not included in the accompanying financial statements.

## 4. CENTRAL DATA REPOSITORY SOFTWARE

In 2003, the Council entered into an agreement with UNISYS to enhance the methods and systems used to collect, validate, process, and distribute Call Report information, and to store this information in a Central Data Repository (CDR).

The CDR was placed into service in October 2005. At that time, the Council began depreciating the CDR project on the straight-line basis over its estimated useful life of 63 months. In 2009, the Council reevaluated the useful life of CDR and decided to extend the estimated useful life by an additional 36 months based on enhanced functionality of the software. The Council records depreciation expenses and recognizes the same amount of revenue. The value of the CDR asset as of December 31, 2010 and 2009, includes the fully accrued and paid cost.

| | 2010 | 2009 |
|---|---|---|
| Capital asset CDR: | | |
| Beginning balance | $18,231,272 | $14,140,655 |
| Software placed in use during the year | 1,140,389 | 4,090,617 |
| Total asset | $19,371,661 | $18,231,272 |
| Accounts payable and accrued liabilities related to CDR: | | |
| Payable to UNISYS for the CDR project | $ 865,630 | $ 729,166 |

**Revenues — Central Data Repository** — The Council is funding the project by billing the three participating Council member organizations (FRB, FDIC, and OCC). Funding for the years ended December 31, 2010 and 2009, is as follows.

| **Deferred Revenue** | **2010** | **2009** |
|---|---|---|
| Beginning balance | $ 7,424,718 | $ 8,173,666 |
| Additions | 1,140,389 | 2,194,713 |
| Less revenue recognized | (1,856,180) | (2,943,660) |
| Ending balance | $ 6,708,927 | $ 7,424,719 |
| Current portion deferred revenue | $ 2,236,309 | $ 1,856,180 |
| Long-term deferred revenue | 4,472,618 | 5,568,539 |
| Total Deferred Revenue | $ 6,708,927 | $ 7,424,719 |
| **Total CDR Revenue** | | |
| Revenue | $ 1,856,180 | $ 2,943,660 |
| Hosting and maintenance revenue | 2,596,106 | 2,797,497 |
| Total CDR Revenue | $ 4,452,286 | $ 5,741,157 |
| **Professional Fees** | | |
| Hosting and maintenance fees for the CDR project | $ 2,596,106 | $ 2,797,497 |
| **Depreciation** | | |
| Depreciation for the CDR project | $ 1,856,180 | $ 2,943,660 |
| Average monthly depreciation | $ 154,682 | $ 245,305 |

## 5. HOME MORTGAGE DISCLOSURE ACT SOFTWARE

The Council entered into an agreement with FRB to maintain and support the HMDA processing system. In 2007, the Council began a rewrite of the entire HMDA processing system. The HMDA rewrite will enhance the processing system. The cost of the software in process is $2,783,868 and $2,344,680 as of December 31, 2010 and 2009, respectively. The financial activity associated with the processing system for the years ended December 31, 2010 and 2009, is as follows.

| | **2010** | **2009** |
|---|---|---|
| **Deferred Revenue** | | |
| Beginning balance | $2,344,680 | $1,544,895 |
| Additions | 439,188 | 799,785 |
| Less revenue recognized | 0 | 0 |
| Ending balance | $2,783,868 | $2,344,680 |
| Current portion deferred revenue | $ 556,774 | $ 0 |
| Long-term deferred revenue | 2,227,094 | 2,344,680 |
| Total Deferred Revenue | $2,783,868 | $2,344,680 |
| **Revenue** | | |
| The Council recognized the following revenue from member organizations for the production and distribution of reports under the HMDA | $2,537,870 | $2,234,514 |
| The Council recognized the following revenue from the Department of Housing and Urban Development's participation in the HMDA project | 588,421 | 559,151 |
| The Council recognized the following revenue from the Mortgage Insurance Companies of America for performing HMDA-related work | 306,784 | 278,308 |
| Total HMDA | $3,433,075 | $3,071,973 |
| **Depreciation** | | |
| Depreciation for the HMDA Rewrite project | $ 0 | $ 0 |
| Average monthly depreciation | $ 0 | $ 0 |

## 6. OPERATING LEASES

The FRB, on behalf of the Council, entered into two operating leases at market value to secure office and classroom space. One lease terminated in 2009 and one began in January 2010 with the FDIC.

| Years Ending December 31 | Amount |
|---|---|
| 2011 | $ 261,598 |
| 2012 | 264,900 |
| 2013 | 268,292 |
| 2014 | 271,772 |
| Total minimum lease payments | $ 1,066,562 |

Rental expenses under these operating leases were $264,989 and $247,648 as of December 31, 2010 and 2009, respectively.

## 7. CAPITAL LEASES

In December 2009 and November 2010, the Council entered into capital leases for printing equipment. Furniture and equipment includes $198,485 for the capital leases. Contingent rentals for excess usage of the printing equipment amounted to $11,049 in 2010.

The future minimum lease payments required under the capital leases and the present value of the net minimum lease payments as of December 31, 2010, are as follows:

| Years Ending December 31 | Amount |
|---|---|
| 2011 | 59,089 |
| 2012 | 59,089 |
| 2013 | 59,089 |
| 2014 | 59,089 |
| 2015 | 31,737 |
| Total minimum lease payments | 268,093 |
| Less amount representing maintenance | (72,789) |
| Net minimum lease payments | 195,304 |
| Less amount representing interest | (15,274) |
| Net minimum lease payments | 180,030 |
| Less current maturities of capital lease payments | (37,828) |
| Long-term capital lease obligations | $ 142,202 |

## 8. SUBSEQUENT EVENTS

There were no subsequent events that require adjustments to or disclosures in the financial statements as of December 31, 2010. Subsequent events were evaluated through February 28, 2011, which is the date the financial statements were available to be issued.

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# INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Federal Financial Institutions Examination Council:

We have audited the financial statements of the Federal Financial Institutions Examination Council (the "Council") as of and for the year ended December 31, 2010, and have issued our report thereon dated February 28, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Council's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Council's financial statements that is more than inconsequential will not be prevented or detected by the Council's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Council's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

Distribution

This report is intended solely for the information and use of the Council, management, and others within the organization, and the Office of Inspector General, and the United States Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte + Touche LLP

February 28, 2011