Federal Financial Institutions Examination Council

Financial Statements as of and for the
Years Ended December 31, 2012 and 2011, and
Independent Auditors' Reports

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

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Deloitte & Touche LLP
555 12th St. N.W.
Washington, DC 20004-1207
USA

Tel: +1 202 879 5600
Fax: +1 202 879 5309
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Federal Financial Institutions Examination Council:

We have audited the accompanying financial statements of the Federal Financial Institutions Examination Council (the "Council") which are comprised of the balance sheets as of December 31, 2012 and 2011, and the related statements of operations, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

The Council's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits.
We conducted our audits of the financial statements in accordance with auditing standards generally accepted in the United States of America and in accordance with 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 from material misstatement. An audit of the financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Council's preparation and fair presentation of the financial statements in order to design 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. Accordingly, we express no such opinion. An audit of the financial statements also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Council as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Internal Control Over Financial Reporting and on Compliance Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

In accordance with *Government Auditing Standards,* we have also issued our report dated February 28, 2013, on our consideration of the Council's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Council's internal control over financial reporting and compliance.

Deloitte & Touche LLP

February 28, 2013

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

BALANCE SHEETS
AS OF DECEMBER 31, 2012 AND 2011

	2012	2011
ASSETS		
CURRENT ASSETS:		
Cash	$ 638,550	$ 543,453
Accounts receivable from member organizations	885,200	785,708
Accounts receivable from non-members — net	189,930	91,520
Total current assets	1,713,680	1,420,681
NONCURRENT ASSETS:		
Furniture and equipment leased — net	97,929	137,625
Central Data Repository software — net	3,393,963	5,138,312
Home Mortgage Disclosure Act software — net	1,716,718	2,273,492
Total noncurrent assets	5,208,610	7,549,429
TOTAL ASSETS	$ 6,922,290	$ 8,970,110
LIABILITIES AND CUMULATIVE RESULTS OF OPERATIONS		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities payable to member organizations	$ 840,720	$ 805,796
Other accounts payable and accrued liabilities	484,866	285,947
Accrued annual leave	38,880	22,971
Capital lease payable	41,040	39,376
Deferred revenue	3,950,737	3,125,930
Total current liabilities	5,356,243	4,280,020
LONG-TERM LIABILITIES:		
Capital lease payable	61,786	102,825
Deferred revenue	1,159,944	4,285,874
Deferred rent	10,085	9,996
Total long-term liabilities	1,231,815	4,398,695
Total liabilities	6,588,058	8,678,715
CUMULATIVE RESULTS OF OPERATIONS	334,232	291,395
TOTAL LIABILITIES AND CUMULATIVE RESULTS OF OPERATIONS	$ 6,922,290	$ 8,970,110

See notes to financial statements.

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
REVENUES:		
Assessments on member organizations	$ 687,332	$ 687,107
Central Data Repository	5,398,279	4,936,912
Home Mortgage Disclosure Act	3,999,638	3,727,927
Tuition	3,605,056	3,246,549
Community Reinvestment Act	949,761	946,928
Uniform Bank Performance Report	396,883	351,646
Total revenues	15,036,949	13,897,069
EXPENSES:		
Data processing	4,392,625	4,164,479
Professional fees	4,277,394	4,121,224
Salaries and related benefits	2,023,401	1,781,660
Depreciation	3,371,828	2,869,594
Rental of office space	264,989	264,989
Administration fees	261,000	281,000
Travel	277,321	242,659
Other seminar expenses	22,694	33,526
Rental and maintenance of office equipment	33,612	27,544
Office and other supplies	34,145	56,237
Printing	23,561	18,389
Postage	1,419	2,564
Miscellaneous	10,123	5,046
Total expenses	14,994,112	13,868,911
RESULTS OF OPERATIONS	42,837	28,158
CUMULATIVE RESULTS OF OPERATIONS — Beginning of year	291,395	263,237
CUMULATIVE RESULTS OF OPERATIONS — End of year	$ 334,232	$ 291,395

See notes to financial statements.

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES:		
Results of operations	$ 42,837	$ 28,158
Adjustments to reconcile results of operations to net cash provided by operating activities:		
Depreciation	3,371,828	2,869,594
(Increase) decrease in assets:		
Accounts receivable from member organizations	(99,492)	490,542
Other accounts receivable	(98,410)	12,921
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities payable to member organizations	34,924	(33,356)
Other accounts payable and accrued liabilities	113,238	(284,515)
Accrued annual leave	15,909	(4,775)
Deferred revenue (current and non-current)	(2,583,162)	(2,080,991)
Deferred rent	89	3,391
Net cash provided by operating activities	797,761	1,000,969
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES:		
Capital expenditures	(660,365)	(1,169,016)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES:		
Capital lease payments	(42,299)	(35,315)
NET INCREASE (DECREASE) IN CASH	95,097	(203,362)
CASH BALANCE — Beginning of year	543,453	746,815
CASH BALANCE — End of year	$ 638,550	$ 543,453

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 represented on the Council during 2012, referred to collectively as member organizations, are as follows:

- Board of Governors of the Federal Reserve System (FRB)
- Consumer Financial Protection Bureau (CFPB)
- Federal Deposit Insurance Corporation (FDIC)
- National Credit Union Administration (NCUA)
- Office of the Comptroller of the Currency (OCC)

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 substituted the director of the Consumer Financial Protection Bureau for the director of the Office of Thrift Supervision (OTS) 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 Appraisal Subcommittee, nor are Appraisal Subcommittee funds available for use by the Council.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting — The Council prepares its financial statements in accordance with accounting principles generally accepted in the United States (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 may be 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 training 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 are 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 recognizes revenue from member agencies for expenses incurred related to the Community Reinvestment Act, and the Home Mortgage Disclosure Act. The Council also recognizes revenue from other agencies and mortgage insurance companies related to the Home Mortgage Disclosure 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 processing system, 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 (ASC).

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

Deferred Rent — The lease for office and classroom space contains scheduled rent increases over the term of the lease. As required by FASB ASC 840 Topic Leases, 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. The allowance for doubtful accounts is $0 and $59 for 2012 and 2011, respectively.

3. TRANSACTIONS WITH MEMBER ORGANIZATIONS

	2012	2011
Accounts receivable:		
Board of Governors of the Federal Reserve System	$ 211,061	$ 132,539
Consumer Financial Protection Bureau	42,253	0
Federal Deposit Insurance Corporation	268,871	194,230
National Credit Union Administration	42,370	46,051
Office of the Comptroller of the Currency	320,645	412,888
	$ 885,200	$ 785,708
Accounts payable and accrued liabilities:		
Board of Governors of the Federal Reserve System	$ 545,770	$ 494,234
Consumer Financial Protection Bureau	5,397	0
Federal Deposit Insurance Corporation	161,700	175,940
National Credit Union Administration	28,470	27,080
Office of the Comptroller of the Currency	99,383	108,542
	$ 840,720	$ 805,796
Operations:		
Council operating expenses reimbursed by members	$ 687,332	$ 687,107
FRB-provided administrative support	$ 261,000	$ 281,000
FRB-provided data processing	$ 4,392,625	$ 4,164,479

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. Due to organizational changes resulting from the Dodd-Frank Act, the OCC absorbed all financial related activity of the OTS on July 21, 2011.

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 (CDR)

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 CDR. CDR was placed into service in October 2005. At that time, the Council began depreciating CDR 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 Council also pays for hosting and maintenance expenses for CDR and recognizes the associated revenue from members. In 2012, the Council had enhancements made to CDR of $ 1,031,009. Some of these enhancements, which affect the asset value, were paid for directly by the FDIC. This non-cash event in the amount of $282,040 is excluded from the Statement of Cash Flows.

	2012	**2011**
Capital asset CDR		
Beginning balance	$ 20,120,566	$ 19,371,661
Software placed in use during the year	1,031,009	748,905
Total asset	$ 21,151,575	$ 20,120,566
Less accumulated depreciation	(17,757,612)	(14,982,254)
Central Data Repository software — net	$ 3,393,963	$ 5,138,312
Accounts payable and accrued liabilities related to CDR:		
Payable to UNISYS for the CDR project	$ 219,762	$ 216,012

CDR Financial Activity —The Council is funding the project by billing the three participating Council member organizations (FRB, FDIC, and OCC). Activity for the years ended December 31, 2012 and 2011 is as follows:

Deferred Revenue	**2012**	**2011**
Beginning balance	$ 5,138,312	$ 6,708,927
Additions	1,031,009	748,906
Less revenue recognized	(2,775,358)	(2,319,521)
Ending balance	$ 3,393,963	$ 5,138,312
Current portion deferred revenue	$ 3,393,963	$ 2,569,156
Long-term deferred revenue	0	2,569,156
Total Deferred Revenue	$ 3,393,963	$ 5,138,312
Total CDR Revenue		
Deferred revenue recognized	$ 2,775,358	$ 2,319,521
Hosting and maintenance revenue	2,622,921	2,617,391
Total CDR Revenue	$ 5,398,279	$ 4,936,912
Depreciation		
Depreciation for the CDR project	$ 2,775,358	$ 2,319,521

5. HOME MORTGAGE DISCLOSURE ACT (HMDA)

FRB provides maintenance and support for the HMDA processing system. In 2007, the Council began a rewrite of the entire HMDA processing system, which went into service in 2011. At that time the Council began depreciating the system on the straight-line basis over its estimated useful life of 60 months. The Council records depreciation expenses and recognizes the same amount of revenue each year. The Council also pays for maintenance expenses for the HMDA processing system and recognizes the associated revenue from the members and non-members. The financial activity associated with the processing system for the years ended December 31, 2012 and 2011 is as follows:

	2012	2011
Deferred Revenue		
Beginning balance	$ 2,273,492	$ 2,783,868
Additions	0	0
Less revenue recognized	(556,774)	(510,376)
Ending balance	$ 1,716,718	$ 2,273,492
Current portion deferred revenue	$ 556,774	$ 556,774
Long-term deferred revenue	1,159,944	1,716,718
Total Deferred Revenue	$ 1,716,718	$ 2,273,492
Total HMDA Revenue		
The Council recognized the following revenue from:		
Member organizations for the production and distribution of reports under the HMDA (includes the deferred revenue recognized in 2012)	$ 3,111,398	$ 2,857,085
Department of Housing and Urban Development's participation in the HMDA project	546,809	556,207
Mortgage insurance companies for HMDA-related work	341,431	314,635
Total HMDA Revenue	$ 3,999,638	$ 3,727,927
Capital asset HMDA		
Beginning balance	$ 2,783,868	$ 2,783,868
Total asset	$ 2,783,868	$ 2,783,868
Less accumulated depreciation	(1,067,150)	(510,376)
HMDA software — net	$ 1,716,718	$ 2,273,492
Depreciation		
Depreciation for the HMDA Rewrite project	$ 556,774	$ 510,376

6. OPERATING LEASES

The Council entered into an operating lease with the FDIC in January 2010 to secure office and classroom space. Minimum annual payments under the operating lease having an initial or remaining non-cancelable lease term in excess of one year at December 31, 2012 are as follows:

2013	268,292
2014	271,772
Total minimum lease payments	$ 540,064

Rental expenses under this operating lease were $264,989 and $264,989 as of December 31, 2012 and 2011, 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. Accumulated depreciation is $100,556 and $60,860 for 2012 and 2011, respectively. The depreciation expense for the printing equipment is $39,697 and $39,697 for 2012 and 2011, respectively. Contingent rentals for excess usage of the printing equipment amounted to $20,544 and $13,531 in 2012 and 2011, respectively.

The future minimum lease payments required under the capital leases and the present value of the net minimum lease payments as of December 31, 2012 are as follows:

Years Ending December 31,	**Amount**
2013	$ 59,089
2014	59,089
2015	31,738
Total minimum lease payments	149,916
Less amount representing maintenance	(42,733)
Net minimum lease payments	107,183
Less amount representing interest	(4,357)
Net minimum lease payments	102,826
Less current maturities of capital lease payments	(41,040)
Long-term capital lease obligations	$ 61,786

8. SUBSEQUENT EVENTS

There were no subsequent events that require adjustments to or disclosures in the financial statements as of December 31, 2012. Subsequent events were evaluated through February 28, 2013, which is the date the financial statements were available to be issued.

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Deloitte & Touche LLP
555 12th St. N.W.
Washington, DC 20004-1207
USA

Tel: +1 202 879 5600
Fax: +1 202 879 5309
www.deloitte.com

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, in accordance with the 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, the financial statements of the Federal Financial Institutions Examination Council (the "Council"), as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, and have issued our report thereon dated February 28, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Council's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Council's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deloitte & Touche LLP

February 28, 2013