

***Federal Financial Institutions  
Examination Council***

*Financial Statement as of and for the  
Years Ended December 31, 2007 and 2006,  
and Independent Auditors' Report*



## INDEPENDENT AUDITORS' REPORT

The Federal Financial Institutions Examination Council:

We have audited the accompanying balance sheet of the Federal Financial Institutions Examination Council (the "Council") as of December 31, 2007, and the related statements of revenues and expenses and changes in cumulative results of operations, and cash flows for the year 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 audit. The financial statements of the Council for the year ended December 31, 2006 were audited by other auditors whose report, dated March 7, 2007, expressed an unqualified opinion on those statements.

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. 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 audit provides a reasonable basis for our opinion.

In our opinion, such 2007 financial statements present fairly, in all material respects, the financial position of the Federal Financial Institutions Examination Council as of December 31, 2007, and the results of its operations and its cash flows for the year 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, 2008 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 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, 2008

# FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

## BALANCE SHEETS

AS OF DECEMBER 31, 2007 AND 2006

	2007	2006
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash	\$ 838,171	\$ 656,600
Accounts receivable from member organizations (Note 3)	1,613,866	997,342
Other accounts receivable — net (Note 2)	<u>256,897</u>	<u>243,181</u>
Total current assets	2,708,934	1,897,123
CAPITAL ASSETS:		
Furniture and equipment — at cost	56,121	56,121
Central Data Repository — at cost (Note 4)	15,141,191	12,905,335
Other assets	745,110	0
Less accumulated depreciation	<u>(5,421,241)</u>	<u>(2,947,171)</u>
Net capital assets	<u>10,521,181</u>	<u>10,014,285</u>
TOTAL ASSETS	<u>\$ 13,230,115</u>	<u>\$ 11,911,408</u>
<b>LIABILITIES AND CUMULATIVE RESULTS OF OPERATIONS</b>		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities payable to member organizations (Note 3)	\$ 1,148,794	\$ 797,093
Other accounts payable and accrued liabilities (Note 4)	1,251,530	645,438
Accrued payroll and annual leave	231,451	313,038
Deferred revenue (current portion) (Note 4)	<u>2,497,774</u>	<u>2,355,548</u>
Total current liabilities	5,129,549	4,111,117
LONG-TERM LIABILITIES:		
Deferred revenue (non-current portion) (Notes 3 and 4)	8,023,407	7,658,737
Deferred rent (Note 5)	<u>32,515</u>	<u>58,164</u>
Total long-term liabilities	<u>8,055,922</u>	<u>7,716,901</u>
Total liabilities	13,185,471	11,828,018
CUMULATIVE RESULTS OF OPERATIONS	<u>44,644</u>	<u>83,390</u>
TOTAL LIABILITIES AND CUMULATIVE RESULTS OF OPERATIONS	<u>\$ 13,230,115</u>	<u>\$ 11,911,408</u>

See accompanying notes to financial statements.

# FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

## STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN CUMULATIVE RESULTS OF OPERATIONS FOR THE YEARS ENDING DECEMBER 31, 2007 AND 2006

	2007	2006
REVENUES:		
Assessments on member organizations (Note 3)	\$ 540,813	\$ 548,800
Central Data Repository (Note 4)	5,723,376	5,650,751
Home Mortgage Disclosure Act (Note 6)	2,830,584	2,777,980
Tuition (Note 3)	2,141,331	2,066,960
Community Reinvestment Act (Note 6)	881,953	800,839
Uniform Bank Performance Report (Note 6)	585,973	595,781
Appraisal Subcommittee (Note 6)	216,556	189,397
	<u>12,920,586</u>	<u>12,630,508</u>
Total revenues		
EXPENSES:		
Data processing	3,988,462	3,888,362
Professional fees (Note 4)	4,057,023	4,041,444
Salaries and related benefits	1,374,193	1,349,310
Depreciation (Note 4)	2,474,070	2,321,753
Rental of office space	516,364	469,860
Administration fees	190,800	183,000
Travel	120,181	98,582
Books and subscriptions	96,696	98,160
Other seminar expenses	21,571	11,801
Rental and maintenance of office equipment	56,598	33,293
Office and other supplies	26,686	21,026
Printing	27,099	26,210
Postage	5,075	10,571
Miscellaneous	4,514	3,555
	<u>12,959,332</u>	<u>12,556,927</u>
Total expenses		
RESULTS OF OPERATIONS	(38,746)	73,581
CUMULATIVE RESULTS OF OPERATIONS — Beginning of period	<u>83,390</u>	<u>9,809</u>
CUMULATIVE RESULTS OF OPERATIONS — End of period	<u>\$ 44,644</u>	<u>\$ 83,390</u>

See accompanying notes to financial statements.

## FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

### STATEMENTS OF CASH FLOWS FOR THE YEARS ENDING DECEMBER 31, 2007 AND 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Results of operations	\$ (38,746)	\$ 73,581
Adjustments to reconcile results of operations to net cash provided by operating activities:		
Depreciation	2,474,070	2,321,753
(Increase) decrease in assets:		
Accounts receivable from member organizations	(616,524)	811,169
Other accounts receivable	(13,717)	314,166
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities payable to member organizations	351,701	(302,307)
Other accounts payable and accrued liabilities	606,092	(836,664)
Accrued payroll and annual leave	(81,587)	15,836
Deferred revenue (current and non-current)	506,896	(1,471,662)
Deferred rent	<u>(25,648)</u>	<u>(17,440)</u>
Net cash provided by operating activities	<u>3,162,537</u>	<u>908,432</u>
CASH FLOWS FROM INVESTING ACTIVITIES —		
Capital expenditures	<u>(2,980,966)</u>	<u>(850,091)</u>
Net cash used in investing activities	<u>(2,980,966)</u>	<u>(850,091)</u>
NET INCREASE IN CASH	181,571	58,341
CASH BALANCE — Beginning of period	<u>656,600</u>	<u>598,259</u>
CASH BALANCE — End of period	<u>\$ 838,171</u>	<u>\$ 656,600</u>

See accompanying notes to financial statements.

# FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDING DECEMBER 31, 2007 AND 2006

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### 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 are represented on the Council, 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 FFIEC 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.

**Appraisal Subcommittee** — The Council's financial statements do not include financial data for the Appraisal Subcommittee. The Appraisal Subcommittee of the Council was created pursuant to Public Law 101-73, Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989. The functions of the Appraisal Subcommittee are related to the certification and licensing of individuals who perform appraisals in connection with federally related real estate transactions. Members of the Appraisal Subcommittee consist of the designees of the heads of those agencies which comprise the Council and the designee of the head of the Department of Housing and Urban Development.

All functions and responsibilities assigned to the Council under Title XI are performed directly by the Appraisal Subcommittee without any need for approval or concurrence from the Council. The Appraisal Subcommittee has its own policies and procedures and submits its own Annual Report to the President of the Senate and Speaker of the House. 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 based upon accounting standards issued by the Financial Accounting Standards Board (FASB).

**Revenues** — Assessments made on member organizations for operating expenses and additions to property are based on expected cash needs. Amounts over- or under- assessed due to differences between actual and expected cash needs flow into "Cumulative Results of Operations" during the year and then are used to offset or increase the next year's assessment. Deficits in "Cumulative Results of Operations" can be made up in the following year's assessments.

Tuition revenue is adjusted at year-end to match expenses incurred as a result of providing education classes. For differences between revenues and expenses, member agencies are billed an additional amount or credited a refund based on each member's proportional cost for the Examiner Education budget.

**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 from the accounts and any gain or loss is recognized. The Central Data Repository (CDR), an internally-developed software project, is recorded at cost in accordance with Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use* (see Note 4).

**Deferred Revenue** — Deferred revenue includes cash collected and accounts receivable related to the CDR (see Note 4).

**Estimates** — The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 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

	2007	2006
<u>Accounts Receivable:</u>		
Board of Governors of the Federal Reserve System	\$ 343,739	\$ 169,562
Federal Deposit Insurance Corporation	434,908	583,844
National Credit Union Administration	97,765	63,880
Office of the Comptroller of the Currency	500,397	111,909
Office of Thrift Supervision	<u>237,057</u>	<u>68,147</u>
	<u>\$1,613,866</u>	<u>\$ 997,342</u>
<u>Accounts Payable and Accrued Liabilities:</u>		
Board of Governors of the Federal Reserve System	\$ 532,047	\$ 472,855
Federal Deposit Insurance Corporation	182,491	68,854
National Credit Union Administration	66,342	196,288
Office of the Comptroller of the Currency	344,659	37,191
Office of Thrift Supervision	<u>23,255</u>	<u>21,905</u>
	<u>\$1,148,794</u>	<u>\$ 797,093</u>
<u>Operations:</u>		
Assessments to member organizations for:		
Budgeted operating expenses	\$ 530,813	\$ 480,430
Unbudgeted operating expenses	<u>10,000</u>	<u>68,370</u>
	<u>\$ 540,813</u>	<u>\$ 548,800</u>
FRB provided administrative support services to the Council at an expense of:	190,800	183,000

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.

<u>Examiner Education:</u>	2007	2006
The Council provides seminars in the Washington area and at regional locations throughout the country for member organization examiners and other agencies. Tuition revenue earned from member organizations was:	\$ 2,036,000	\$ 1,940,815

<u>HMDA and CRA</u>		
Member organizations provide office space, data processing related to HMDA and Community Reinvestment Act (CRA), and printing services to the Council at an expense of:	3,945,705	3,805,041

In 2007, the Council began a rewrite of the entire HMDA processing system. The total estimated cost for the rewrite is \$3.2 million over 3.5 years. The current value of this software in process is \$745,110 as of December 31, 2007.

#### UBPR

The Council coordinates the production and distribution of the Uniform Bank Performance Reports (UBPR) through the FDIC. The Council is reimbursed for the direct cost of the operating expenses it incurs for this project.

#### **4. CENTRAL DATA REPOSITORY**

In 2003, the Council entered into an agreement with UNISYS, totaling approximately \$40 million, 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 sixty-three months. The Council records depreciation expense and recognizes the same amount of deferred revenue. The value of the CDR asset includes the fully accrued and paid cost.

	2007	2006
<b><u>Capital asset CDR</u></b>		
Beginning balance of software in use	\$ 12,313,244	\$ 11,955,244
Software placed in use during the year	545,196	358,000
Total software in use	<u>12,858,440</u>	<u>12,313,244</u>
Software under development	<u>2,282,751</u>	<u>592,091</u>
Total asset	<u>\$ 15,141,191</u>	<u>\$ 12,905,335</u>
<b><u>Other accounts payable and accrued liabilities</u></b>		
Payable to UNISYS for the CDR project	\$ 841,392	\$ 576,443
Other vendors unrelated to the CDR project	<u>410,138</u>	<u>68,995</u>
Total other accounts payable and accrued liabilities	<u>\$ 1,251,530</u>	<u>\$ 645,438</u>

**Revenues - Central Data Repository** — The Council is funding the project by billing the three participating Council member organizations (FRB, FDIC, and OCC).

	<b>2007</b>	<b>2006</b>
Deferred revenue:		
Beginning balance	\$ 10,014,285	\$ 11,485,947
Additions	2,235,856	850,091
Less revenue recognized	<u>(2,474,070)</u>	<u>(2,321,753)</u>
Ending balance	<u>\$ 9,776,071</u>	<u>\$ 10,014,285</u>
Current portion deferred revenue	\$ 2,497,774	\$ 2,355,548
Long-term deferred revenue	<u>7,278,297</u>	<u>7,658,737</u>
	<u>\$ 9,776,071</u>	<u>\$ 10,014,285</u>
Total CDR revenue:		
Deferred revenue	\$ 2,474,070	\$ 2,321,753
Hosting and maintenance fees	<u>3,249,306</u>	<u>3,328,998</u>
Total CDR revenue	<u>\$ 5,723,376</u>	<u>\$ 5,650,751</u>
Professional fees:		
Hosting and maintenance fees for the CDR project	\$ 3,249,306	\$ 3,328,998
Other professional fees unrelated to the CDR project	<u>807,717</u>	<u>712,446</u>
Total professional fees	<u>\$ 4,057,023</u>	<u>\$ 4,041,444</u>
Depreciation for the CDR project	<u>\$ 2,474,070</u>	<u>\$ 2,321,753</u>
Average monthly amortization	<u>\$ 206,173</u>	<u>\$ 193,479</u>

## 5. DEFERRED RENT

In 1998, the Council entered into a lease for office space. This lease contains rent abatements and scheduled rent increases. In 2005, the Council entered into a lease for office and classroom space that contains scheduled rent increases over the term of the lease. In accordance with accounting principles generally accepted in the United States, 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.

**6. OTHER REVENUE**

	<b>2007</b>	<b>2006</b>
<b><u>Home Mortgage Disclosure Act (HMDA)</u></b>		
The Council recognized the following revenue from member organizations for the production and distribution of reports under the HMDA:	\$ 1,857,454	\$ 1,880,259
The Council recognized the following revenue from the Department of Housing and Urban Development's participation in the HMDA project:	699,663	589,547
The Council recognized the following revenue from the Mortgage Insurance Companies of America for performing HMDA-related work:	258,986	287,481
The balance of the HMDA revenue for 2007 and 2006 was from sales to the public:	<u>14,481</u>	<u>20,693</u>
Total HMDA	<u>\$2,830,584</u>	<u>\$2,777,980</u>

**Community Reinvestment Act (CRA)** — The Council recognized revenue for support of operating expenses from the participating member agencies.

**Uniform Bank Performance Report (UBPR)** — The Council recognized revenue for coordinating and providing certain administrative support to the UBPR project.

**Appraisal Subcommittee** — The Council recognized revenue for providing space to the Appraisal Subcommittee.

**7. OPERATING LEASES**

The Board, on behalf of the Council entered into operating leases terminating in 2008 and 2009 to secure office and classroom space. Minimum future rental commitments under those operating leases having an initial or remaining non-cancelable lease term in excess of one year at December 31, 2007 are as follows:

FY 2008	\$417,980
FY 2009	<u>255,261</u>
	<u>\$ 673,241</u>

Rental expenses under these operating leases were \$516,364 and \$469,860 in 2007 and 2006, respectively.

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

To the Federal Financial Institutions Examination Council:

We have audited the financial statements of the Financial Institutions Examination Council (the "Council") as of and for the year ended December 31, 2007, and have issued our report thereon dated February 28, 2008. 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 audit procedures for the purposes 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be a significant deficiency.

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 Council'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 controls. 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.

The Council relies on the Board of Governors to process financial data and prepare their financial statements. During our audit, we noted certain control deficiencies within the general computer control environment within the Board of Governors related to logical access controls, which affect several financial system platforms supporting the Council's financial statements. These deficiencies individually are not considered significant deficiencies, however, when considered collectively, aggregate to a significant deficiency. We have considered these matters in conjunction with our audit of the financial statements and noted no material misstatements or omissions in the Council's financial statements that were caused by these various control deficiencies. Management has taken steps to address these deficiencies by correcting the cause of a deficiency and/or by implementing additional compensating controls and processes. Due to the sensitive nature of these deficiencies, the technical details related to these deficiencies have been provided to Board of Governors' management in a separate, limited distribution communication.

Our consideration of the 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

We have communicated to management, in a separate communication dated February 28, 2008, other control deficiencies involving the Council's internal control over financial reporting and other matters that we identified during our audit.

## **COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether 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, 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, 2008