2020-FMIC-B-001
February 26, 2020

Board of Governors of the Federal Reserve System

Federal Financial Institutions Examination Council Financial Statements as of and for the Years Ended December 31, 2019 and 2018, and Independent Auditors' Report

Office of Inspector General
Board of Governors of the Federal Reserve System
Bureau of Consumer Financial Protection

Office of Inspector General
Board of Governors of the Federal Reserve System
Bureau of Consumer Financial Protection

February 26, 2020

Federal Financial Institutions Examination Council
3501 Fairfax Drive, B-7081a
Arlington, VA 22226-3550

Dear Members of the Federal Financial Institutions Examination Council:

This letter transmits the *Independent Auditors' Report* prepared by KPMG LLP on the Federal Financial Institutions Examination Council's (FFIEC) financial statements. We contracted with KPMG to audit the financial statements of the FFIEC as of and for the years ended December 31, 2019 and 2018.

The contract requires the audit to be performed in accordance with the 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*, which is issued by the Comptroller General of the United States. We reviewed and monitored the work of KPMG to ensure compliance with the contract. KPMG is responsible for the accompanying *Independent Auditors' Report on the Financial Statements* and *Report on Internal Control Over Financial Reporting and on Compliance and Other Matters*, dated February 25, 2020.

We do not express an opinion on the FFIEC's financial statements. In addition, we do not draw conclusions on the *Independent Auditors' Report on the Financial Statements* and *Report on Internal Control Over Financial Reporting and on Compliance and Other Matters*.

Sincerely,

Mark Bialek

Mark Bialek
Inspector General

cc: Judith Dupre, Executive Secretary, FFIEC
Mary McLeod, Chairman, FFIEC Legal Advisory Group, and General Counsel, Bureau of Consumer Financial Protection
Ricardo A. Aguilera, Chief Financial Officer, Board of Governors of the Federal Reserve System

Federal Financial Institutions Examination Council

Financial Statements as of and for the Years Ended December 31, 2019 and 2018, and Independent Auditors' Reports

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

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KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

The Federal Financial Institutions Examination Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the Federal Financial Institutions Examination Council (the Council), which comprise the balance sheets as of December 31, 2019 and 2018, 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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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 in accordance with auditing standards generally accepted in the United States of America, 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit 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 Federal Financial Institutions Examination Council as of December 31, 2019 and 2018, and its operations and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG

Other Reporting Required by *Government Auditing Standards*

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended December 31, 2019, 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 from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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 the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section 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 Council's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, District of Columbia
February 25, 2020

Federal Financial Institutions Examination Council
Balance Sheets

		As of December 31,		
		2019		2018
Assets				
Current assets:				
Cash	$	2,171,527	$	1,747,692
Accounts receivable from member agencies		1,125,726		591,740
Accounts receivable from non-member agencies – net		14,525		8,774
Total current assets		3,311,778		2,348,206
Non-current assets:				
Central Data Repository software – net		-		86,707
Total non-current assets		-		86,707
Total assets	$	3,311,778	$	2,434,913
Liabilities and cumulative results of operations				
Current liabilities:				
Accounts payable and accrued liabilities payable to member agencies	$	1,552,020	$	736,827
Accounts payable and accrued liabilities payable to non-member agencies		506,394		513,878
Accrued annual leave		81,296		52,838
Deferred revenue		-		86,707
Total current liabilities		2,139,710		1,390,250
Long-term liabilities:				
Deferred rent		8,416		12,518
Total long-term liabilities		8,416		12,518
Total liabilities		2,148,126		1,402,768
Cumulative results of operations		1,163,652		1,032,145
Total liabilities and cumulative results of operations	$	3,311,778	$	2,434,913

See notes to financial statements.

Federal Financial Institutions Examination Council
Statements of Operations

	For the years ended December 31,	
	2019	2018
Revenues:		
Assessments on member agencies	$ 1,484,705	$ 1,466,738
Central Data Repository	3,551,781	3,734,816
Tuition	4,600,550	4,409,863
Home Mortgage Disclosure Act	-	281,310
Community Reinvestment Act	655,973	694,687
Uniform Bank Performance Report	618,424	561,475
Other Revenues	608,767	-
Total revenues	11,520,200	11,148,889
Expenses:		
Data processing	1,264,740	975,998
Professional fees	5,122,144	5,127,604
Salaries and related benefits	3,152,487	2,930,328
Depreciation	86,706	245,773
Rental of office space	367,927	372,586
Administration fees	905,540	869,571
Travel	251,837	260,774
Other seminar expenses	96,265	83,594
Rental and maintenance of office equipment	103,079	55,661
Office and other supplies	29,143	35,576
Printing	6,905	10,373
Miscellaneous	1,920	6,494
Total expenses	11,388,693	10,974,332
Results of operations	131,507	174,557
Cumulative results of operations – beginning of year	1,032,145	857,588
Cumulative results of operations – end of year	$ 1,163,652	$ 1,032,145

See notes to financial statements.

Federal Financial Institutions Examination Council
Statements of Cash Flows

	For the years ended December 31,	
	2019	2018
Cash flows from (used in) operating activities:		
Results of operations	$ 131,507	$ 174,557
Adjustments to reconcile results of operations to net cash from operating activities:		
Depreciation	86,706	250,997
Net loss (gain) on disposal of equipment	-	(5,223)
(Increase) decrease in assets:		
Accounts receivable from member agencies	(533,986)	(131,016)
Accounts receivable from non-member agencies	(5,751)	463,300
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities payable to member agencies	815,193	(646,726)
Other accounts payable and accrued liabilities payable to non-member agencies	(7,484)	78,759
Accrued annual leave	28,458	(3,672)
Deferred revenue (current and non-current)	(86,706)	(208,096)
Deferred rent	(4,102)	16,775
Net cash from (used in) operating activities	423,835	(10,345)
Cash flows from (used in) financing activities:		
Capital lease payments	-	(45,950)
Net cash from (used in) financing activities	-	(45,950)
Net increase (decrease) in cash	423,835	(56,295)
Cash balance – beginning of year	1,747,692	1,803,987
Cash balance – end of year	$ 2,171,527	$ 1,747,692

See notes to financial statements.

Federal Financial Institutions Examination Council Notes to Financial Statements as of and for the Years Ended December 31, 2019 and 2018

(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 Council has six voting members. The five federal agencies represented on the Council during 2019, referred to collectively as member agencies, are as follows:

- Board of Governors of the Federal Reserve System (FRB)
- Consumer Financial Protection Bureau (the Bureau)
- 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 rotating 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 is the implementation of a system, in consultation with the Secretary of the Department of Housing and Urban Development (HUD), 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 (Dodd-Frank Act) was signed into law. This legislation gave the Bureau general rule-writing responsibility for federal consumer financial laws and the HMDA supervisory and enforcement authority. The Bureau, as part of these responsibilities, developed a new HMDA processing system that replaced the HMDA processing system maintained by the FRB. The Council is performing the collection and billing activity for the new HMDA processing system developed by the Bureau. The activity includes the member agencies and HUD. As a collecting entity, the Council does not recognize the transfers from member agencies as revenue nor does the Council use the collections to fund Council expenses; the funds are transferred to the Bureau.

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 and are recognized as revenue in the period in which they are assessed. Amounts over- or under-assessed due to differences between assessments and actual expenses are presented in the Council's Statements of Operations 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, other federal agencies, and state organizations. The Council recognizes revenue from member agencies for 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 Central Data Repository (CDR) processing system, the Community Reinvestment Act (CRA) processing system, the Geocoder and Census Product Services (Other Revenues) and for 2018 only the HMDA processing system previously maintained by the FRB.

Equipment and Software — 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 three to five 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. Costs incurred to acquire software are capitalized based on the purchase price. Costs incurred during the application development stage to develop internal-use software are capitalized based on the cost of direct services and materials associated with designing, coding, installing, and testing the software. Capitalized software costs are amortized on a straight-line basis over the estimated useful lives of the software applications, which generally range from two to five years. Maintenance costs and minor replacements related to software are charged to operating expense in the year incurred. The CDR system, which consists of internally developed software projects, are recorded at cost less accumulated depreciation; unique useful lives are applied to these assets as appropriate.

Deferred Revenue — Deferred revenue includes cash collected and accounts receivable from member organizations to fund the CDR. Revenue is recognized over the useful life of the software.

Deferred Rent — The lease for office and classroom space contains scheduled rent increases over the term of the lease. 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. Significant items subject to such estimates include useful lives of the CDR and the HMDA processing systems previously maintained by the FRB.

Allowance for Doubtful Accounts — Accounts receivable for nonmembers 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.

Prepaid Expenses — The Council recognizes expenses as prepaid for costs paid in advance that will be expensed with the passage of time or upon the occurrence of a triggering event in future periods.

Commitments and contingencies — Liabilities for loss contingencies arising from claims, assessments, litigation, and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

Tax Exempt Status — The Council is not subject to state or local income taxes, and federal law does not impose taxes on the Council's income.

Recently Issued Accounting Standards — In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU), 2014-09, Revenue from Contracts with Customers (Topic 606). This update was issued to create common revenue recognition guidance for U.S. GAAP and International Financial Reporting Standards. The guidance is applicable to all contracts for the transfer of goods or services regardless of industry or type of transaction. This update requires recognition of revenue in a manner that reflects the consideration that the entity expects to receive in return for the transfer of goods or services to customers. Subsequently, the FASB issued a number of related ASUs including ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date; ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net); and ASU 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. This revenue recognition accounting guidance was effective for the Council for the year ended December 31, 2019, and the relevant disclosures have been incorporated into the current disclosures, as applicable.

In February 2016, FASB issued Accounting Standards Update (ASU) 2016-02, Leases (Topic 842). This update revises the model to assess how a lease should be classified and provides guidance for lessees, requiring lessees to present right-of-use assets and lease liabilities on the balance sheet. Subsequently, the FASB issued a number of related ASUs, including in July 2018, ASU 2018-10, Codification Improvements to Topic 842, Leases and ASU 2018-11, Leases (Topic 842) Targeted Improvements; in November 2018, ASU 2018-20, Leases (Topic 842): Narrow-scope Improvements for Lessors; and in March 2019, ASU 2019-01, Leases (Topic 842): Codification Improvements. This lease accounting guidance is effective for the Council for the year ending December 31, 2021, although early adoption is permitted. The Council is continuing to evaluate the effect of this guidance on the Council's financial statements, and is considering the information and processes necessary to adopt the guidance for the year ending December 31, 2020.

(3) Selected Transactions with Member Agencies

		2019		2018
Accounts receivable:				
Board of Governors of the Federal Reserve System	$	257,255	$	135,537
Consumer Financial Protection Bureau		34,135		5,499
Federal Deposit Insurance Corporation		395,419		306,069
National Credit Union Administration		34,135		5,499
Office of the Comptroller of the Currency		404,782		139,136
	$	1,125,726	$	591,740
Accounts payable and accrued liabilities:				
Board of Governors of the Federal Reserve System	$	1,151,325	$	335,717
Consumer Financial Protection Bureau		9,658		11,782
Federal Deposit Insurance Corporation		242,205		236,438
National Credit Union Administration		42,978		46,594
Office of the Comptroller of the Currency		105,854		106,296
	$	1,552,020	$	736,827
Operations:				
Council operating expenses reimbursed by members	$	1,484,705	$	1,466,640
FRB-provided administrative support	$	905,540	$	869,571
FRB-provided data processing	$	1,264,740	$	975,998
Tuition revenue:				
Member tuition	$	4,461,675	$	4,304,013

Member agencies of the Council detail personnel to support Council operations. The salaries and related costs presented on the Statement of Operations represent the amounts which the Council has reimbursed member agencies. These detailed personnel are paid through the payroll systems of their respective member agency. The Council does not have any post-retirement or post-employment benefit liabilities since Council personnel are included in the plans of the member agencies.

Member agencies 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.

Under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act), responsibility for HMDA transitioned to the Bureau. The Bureau developed a new HMDA processing system, which was placed in service in January 2018. The new asset is controlled and owned by the Bureau and reflected on the Bureau's financial statements and not the Council's. The Bureau's new HMDA processing system was developed to replace the current HMDA processing system maintained by the FRB. The FRB's HMDA processing system was decommissioned in

January 2019, without any financial statement impact as the system was fully amortized. The revenue recognized for the maintenance and support from this previously maintained HMDA processing system from the members was $234,425 for the year ended December 31, 2018. HUD's participation in the HMDA processing system previously maintained by the FRB was $46,885 for the year ended December 31, 2018.

(4) Central Data Repository

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 used by member organizations, and to store this information in the CDR. The CDR was placed into service in October 2005. At that time, the Council began depreciating the CDR on a straight-line basis over its estimated useful life of 63 months. In 2009, the Council reevaluated the useful life of the CDR and decided to extend its estimated useful life by an additional 36 months based on enhanced functionality of the software. In 2013, the Council again reevaluated the useful life of the CDR and decided to extend its estimated useful life by an additional 12 months to December 31, 2014. In 2014, the Council added additional enhancements of $688,281 and extended the useful life of the asset, including the enhancements, for an additional 56 months. The Council similarly extended the period of the associated deferred revenue. The Council also pays for hosting and maintenance expenses for the CDR and recognizes the associated revenue from members.

	2019	2018
CDR software		
Beginning balance	$ 21,839,856	$ 21,839,856
Less accumulated depreciation	(21,839,856)	(21,753,149)
CDR software – net	-	$ 86,707
Depreciation:		
Depreciation for the CDR project	$ 86,707	$ 208,095

CDR Financial Activity — The Council is funding the project by billing the three participating Council member agencies (FRB, FDIC, and OCC). The deferred revenue activity for the year ended December 31, 2018, was $86,707 and the accounts payable and accrued liabilities related to the CDR is $468,000 and $457,285 as of December 31, 2019 and 2018, respectively.

(5) Leases

Operating Leases — The Council entered into an operating lease with the FDIC in December 2015 for a five-year period with the option to extend for an additional five years to secure office and classroom space. In September 2018, the Council entered into new operating leases for copier equipment. Minimum annual payments under the operating lease having an initial or remaining noncancelable lease term in excess of one year at December 31, 2019, are as follows:

Years Ended December 31,		Amount
2020	$	396,492
2021		68,149
2022		68,149
2023		56,791
Total minimum lease payments	$	589,581

Contingent rentals for excess usage of the copier equipment amounted to $35,000 and $26,000 in 2019 and 2018, respectively.

(6) Subsequent Events

There were no subsequent events that require adjustments to or disclosures in the financial statements as of December 31, 2019. Subsequent events were evaluated through February 25, 2020, which is the date the financial statements were available to be issued.

* * * * * *