

Federal Financial Institutions Examination Council

Financial Statements as of and for the Years
Ended December 31, 2011 and 2010, and
Independent Auditors' Report

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

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INDEPENDENT AUDITORS' REPORT

To the Federal Financial Institutions Examination Council:
Washington, D.C.

We have audited the accompanying balance sheets of the Federal Financial Institutions Examination Council (the "Council") as of December 31, 2011 and 2010, 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, 2011 and 2010, 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 March 5, 2012, 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

March 5, 2012

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

BALANCE SHEETS

AS OF DECEMBER 31, 2011 AND 2010

	2011	2010
ASSETS		
CURRENT ASSETS:		
Cash	\$ 543,453	\$ 746,815
Accounts receivable from member organizations	785,708	1,276,250
Other accounts receivable — net	<u>91,520</u>	<u>104,441</u>
Total current assets	<u>1,420,681</u>	<u>2,127,506</u>
NONCURRENT ASSETS:		
Furniture and equipment — at cost	20,999	20,999
Furniture and equipment leased — at cost	198,485	198,485
Central Data Repository software — at cost	20,120,566	19,371,661
Home Mortgage Disclosure Act software — at cost	2,783,868	2,783,868
Less accumulated depreciation	<u>(15,574,489)</u>	<u>(12,704,895)</u>
Net capital assets	<u>7,549,429</u>	<u>9,670,118</u>
TOTAL ASSETS	<u>\$ 8,970,110</u>	<u>\$ 11,797,624</u>
LIABILITIES AND CUMULATIVE RESULTS OF OPERATIONS		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities payable to member organizations	\$ 805,796	\$ 839,152
Other accounts payable and accrued liabilities	285,947	988,059
Accrued annual leave	22,971	27,746
Capital lease payable	39,376	37,828
Deferred revenue	<u>3,125,930</u>	<u>2,746,667</u>
Total current liabilities	<u>4,280,020</u>	<u>4,639,452</u>
LONG-TERM LIABILITIES:		
Capital lease payable	102,825	142,202
Deferred revenue	4,285,874	6,746,128
Deferred rent	<u>9,996</u>	<u>6,605</u>
Total long-term liabilities	<u>4,398,695</u>	<u>6,894,935</u>
Total liabilities	8,678,715	11,534,387
CUMULATIVE RESULTS OF OPERATIONS	<u>291,395</u>	<u>263,237</u>
TOTAL LIABILITIES AND CUMULATIVE RESULTS OF OPERATIONS	<u>\$ 8,970,110</u>	<u>\$ 11,797,624</u>

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, 2011 AND 2010

	2011	2010
REVENUES:		
Assessments on member organizations	\$ 687,107	\$ 632,344
Central Data Repository	4,936,912	4,452,286
Home Mortgage Disclosure Act	3,727,927	3,433,075
Tuition	3,246,549	2,662,193
Community Reinvestment Act	946,928	1,024,844
Uniform Bank Performance Report	<u>351,646</u>	<u>464,633</u>
Total revenues	<u>13,897,069</u>	<u>12,669,375</u>
EXPENSES:		
Data processing	4,164,479	4,529,275
Professional fees	4,121,224	3,635,374
Salaries and related benefits	1,781,660	1,739,031
Depreciation	2,869,594	1,877,343
Rental of office space	264,989	264,989
Administration fees	281,000	245,000
Travel	242,659	170,404
Other seminar expenses	33,526	30,297
Rental and maintenance of office equipment	27,544	48,313
Office and other supplies	56,237	25,033
Printing	18,389	18,380
Postage	2,564	1,660
Miscellaneous	<u>5,046</u>	<u>7,021</u>
Total expenses	<u>13,868,911</u>	<u>12,592,120</u>
RESULTS OF OPERATIONS	28,158	77,255
CUMULATIVE RESULTS OF OPERATIONS — Beginning of year	<u>263,237</u>	<u>185,982</u>
CUMULATIVE RESULTS OF OPERATIONS — End of year	<u>\$ 291,395</u>	<u>\$ 263,237</u>

See notes to financial statements.

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Results of operations	\$ 28,158	\$ 77,255
Adjustments to reconcile results of operations to net cash provided by operating activities:		
Depreciation	2,869,594	1,877,343
(Increase) decrease in assets:		
Accounts receivable from member organizations	490,542	(275,247)
Other accounts receivable	12,921	(13,812)
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities payable to member organizations	(33,356)	(77,379)
Other accounts payable and accrued liabilities	(284,515)	(162,453)
Accrued annual leave	(4,775)	7,629
Deferred revenue (current and non-current)	(2,080,991)	(276,603)
Deferred rent	3,391	6,605
	1,000,969	1,163,338
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(1,169,016)	(1,427,853)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Capital lease payments	(35,315)	(11,370)
NET INCREASE (DECREASE) IN CASH	(203,362)	(275,885)
CASH BALANCE — Beginning of year	746,815	1,022,700
CASH BALANCE — End of year	\$ 543,453	\$ 746,815

See notes to financial statements.

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

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 2011, referred to hereinafter 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 substitutes 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 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 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

	2011	2010
Accounts receivable:		
Board of Governors of the Federal Reserve System	\$ 132,539	\$ 290,047
Consumer Financial Protection Bureau	0	0
Federal Deposit Insurance Corporation	194,230	467,726
National Credit Union Administration	46,051	47,501
Office of the Comptroller of the Currency	<u>412,888</u>	<u>416,572</u>
	<u>\$ 785,708</u>	<u>\$ 1,221,846</u>
Accounts payable and accrued liabilities:		
Board of Governors of the Federal Reserve System	\$ 494,234	\$ 579,792
Consumer Financial Protection Bureau	0	0
Federal Deposit Insurance Corporation	175,940	126,265
National Credit Union Administration	27,080	7,624
Office of the Comptroller of the Currency	<u>108,542</u>	<u>124,321</u>
	<u>\$ 805,796</u>	<u>\$ 838,002</u>
Operations:		
Council operating expenses reimbursed by members	\$ 687,107	\$ 632,344
FRB-provided administrative support	\$ 281,000	\$ 245,000
FRB-provided data processing	\$4,164,479	\$4,529,275

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. As of December 31, 2010, the OTS had accounts receivable of \$54,404 and accounts payable and accrued liabilities of \$1,150 that are not reflected in the table above. These amounts were settled by and with the OTS during 2011 and thus were no longer outstanding as of December 31, 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 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 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, 2011 and 2010, includes the fully accrued and paid cost.

	2011	2010
Capital asset CDR:		
Beginning balance	\$ 19,371,661	\$ 18,231,272
Software placed in use during the year	<u>748,905</u>	<u>1,140,389</u>
Total asset	<u>\$ 20,120,566</u>	<u>\$ 19,371,661</u>
Accounts payable and accrued liabilities related to CDR:		
Payable to UNISYS for the CDR project	<u>\$ 216,012</u>	<u>\$ 865,630</u>

CDR Revenues —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, 2011 and 2010, is as follows:

	2011	2010
Deferred Revenue		
Beginning balance	\$ 6,708,927	\$ 7,424,718
Additions	748,906	1,140,389
Less revenue recognized	<u>(2,319,521)</u>	<u>(1,856,180)</u>
Ending balance	<u>\$ 5,138,312</u>	<u>\$ 6,708,927</u>
Current portion deferred revenue	\$ 2,569,156	\$ 2,236,309
Long-term deferred revenue	<u>2,569,156</u>	<u>4,472,618</u>
Total Deferred Revenue	<u>\$ 5,138,312</u>	<u>\$ 6,708,927</u>
Total CDR Revenue		
Deferred revenue recognized	\$ 2,319,521	\$ 1,856,180
Hosting and maintenance revenue	<u>2,617,391</u>	<u>2,596,106</u>
Total CDR Revenue	<u>\$ 4,936,912</u>	<u>\$ 4,452,286</u>
Depreciation		
Depreciation for the CDR project	<u>\$ 2,319,521</u>	<u>\$ 1,856,180</u>
Average monthly depreciation	<u>\$ 193,293</u>	<u>\$ 154,682</u>

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, which went into service in 2011. The Council began depreciating the HMDA project on the straight-line basis over its estimated useful life of 60 months. The financial activity associated with the processing system for the years ended December 31, 2011 and 2010, is as follows:

	2011	2010
Deferred Revenue		
Beginning balance	\$2,783,868	\$2,344,680
Additions	0	439,188
Less revenue recognized	<u>(510,376)</u>	<u>0</u>
Ending balance	<u>\$2,273,492</u>	<u>\$2,783,868</u>
Current portion deferred revenue	\$ 556,774	\$ 510,358
Long-term deferred revenue	<u>1,716,718</u>	<u>2,273,510</u>
Total Deferred Revenue	<u>\$2,273,492</u>	<u>\$2,783,868</u>
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 2011:	\$2,857,085	\$2,537,870
The Council recognized the following revenue from the Department of Housing and Urban Development's participation in the HMDA project:	556,207	588,421
The Council recognized the following revenue from the Mortgage Insurance Companies of America for performing HMDA-related work:	<u>314,635</u>	<u>306,784</u>
Total HMDA	<u>\$3,727,927</u>	<u>\$3,433,075</u>
Depreciation		
Depreciation for the HMDA Rewrite project	<u>\$ 510,376</u>	<u>\$ 0</u>
Average monthly depreciation	<u>\$ 46,398</u>	<u>\$ 0</u>

6. OPERATING LEASES

The FRB, on behalf of the Council, entered into an operating lease at market value with the FDIC in January 2010 to secure office and classroom space.

Years Ending December 31,	Amount
2012	\$ 264,900
2013	268,292
2014	<u>271,772</u>
Total minimum lease payments	<u>\$ 804,964</u>

Rental expenses under this operating lease were \$264,989 and \$264,989 as of December 31, 2011 and 2010, 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 \$60,860 and \$21,163 for 2011 and 2010, respectively. Contingent rentals for excess usage of the printing equipment amounted to \$13,531 and \$11,049 in 2011 and 2010, 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, 2011, are as follows:

Years Ending December 31,	Amount
2012	\$ 59,089
2013	59,089
2014	59,089
2015	<u>31,736</u>
Total minimum lease payments	209,003
Less amount representing maintenance	<u>(57,761)</u>
Net minimum lease payments	151,242
Less amount representing interest	<u>(9,041)</u>
Net minimum lease payments	142,201
Less current maturities of capital lease payments	<u>(39,376)</u>
Long-term capital lease obligations	<u>\$ 102,825</u>

8. SUBSEQUENT EVENTS

There were no subsequent events that require adjustments to or disclosures in the financial statements as of December 31, 2011. Subsequent events were evaluated through March 5, 2012, 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:
Washington, D.C.

We have audited the financial statements of the Federal Financial Institutions Examination Council (the "Council") as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated March 5, 2012. 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

Management of the Council is responsible for establishing and maintaining effective 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 deficiency in internal control over financial reporting 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 deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of the Council's financial reporting. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Council's financial statements will not be prevented or detected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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, 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

March 5, 2012