Federal Financial Institutions Examination Council

Financial Statements as of and for the Years Ended December 31, 2009 and 2008, and Independent Auditors’ Report

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

TABLE OF CONTENTS

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INDEPENDENT AUDITORS' REPORT

The Federal Financial Institutions Examination Council:

We have audited the accompanying balance sheets of the Federal Financial Institutions Examination Council (the "Council") as of December 31, 2009 and 2008, 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 respective 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 respective 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, 2009 and 2008, 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 9, 2010, 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

McLean, VA
March 9, 2010

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

BALANCE SHEETS
AS OF DECEMBER 31, 2009 AND 2008

	2009	2008
ASSETS		
CURRENT ASSETS:		
Cash	$ 1,022,700	$ 708,677
Accounts receivable from member organizations (Note 3)	1,001,002	1,572,136
Other accounts receivable — net	90,628	105,623
Total current assets	2,114,330	2,386,436
CAPITAL ASSETS:		
Furniture and equipment — at cost	118,390	24,199
Central Data Repository — at cost (Note 4)	18,231,272	16,036,559
HMDA software — at cost (Note 5)	2,344,680	1,544,895
Less accumulated depreciation	(10,827,552)	(7,887,093)
Net capital assets	9,866,790	9,718,560
TOTAL ASSETS	$ 11,981,120	$ 12,104,996
LIABILITIES AND CUMULATIVE RESULTS OF OPERATIONS		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities payable to member organizations (Note 3)	$ 981,180	$ 1,300,718
Other accounts payable and accrued liabilities (Note 4)	927,051	652,538
Accrued payroll and annual leave	20,117	22,008
Capital lease payable (Note 7)	16,815	-
Deferred revenue (Note 4)	1,856,180	3,388,881
Total current liabilities	3,801,343	5,364,145
LONG-TERM LIABILITIES:		
Capital lease payable (Note 7)	80,576	-
Deferred revenue (Notes 4 and 5)	7,913,219	6,579,680
Total long-term liabilities	7,993,795	6,579,680
Total liabilities	11,795,138	11,943,825
CUMULATIVE RESULTS OF OPERATIONS	185,982	161,171
TOTAL LIABILITIES AND CUMULATIVE RESULTS OF OPERATIONS	$ 11,981,120	$ 12,104,996

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, 2009 AND 2008

	2009	2008
REVENUES:		
Assessments on member organizations (Note 3)	$ 589,988	$ 574,447
Central Data Repository (Note 4)	5,741,157	6,160,478
Home Mortgage Disclosure (Note 5)	3,071,973	2,969,535
Tuition (Note 3)	2,322,041	1,744,029
Community Reinvestment Act (Note 5)	1,013,110	931,244
Uniform Bank Performance Report (Note 5)	537,606	565,522
Appraisal Subcommittee (Note 5)	-	178,963
Total revenues	13,275,875	13,124,218
EXPENSES:		
Data processing	4,370,506	4,126,928
Professional fees (Note 4)	3,674,379	4,261,260
Salaries and related benefits (Note 3)	1,468,414	1,164,304
Depreciation (Note 4)	2,943,660	2,497,774
Rental of office space (Note 6)	247,648	454,184
Administration fees (Note 3)	245,000	190,400
Travel	156,742	135,006
Books and subscriptions	18,985	16,255
Other seminar expenses	33,343	30,824
Rental and maintenance of office equipment	50,967	41,998
Office and other supplies	14,107	33,980
Printing	19,342	43,261
Postage	1,960	2,475
Miscellaneous	6,011	9,042
Total expenses	13,251,064	13,007,691
RESULTS OF OPERATIONS	24,811	116,527
CUMULATIVE RESULTS OF OPERATIONS — Beginning of year	161,171	44,644
CUMULATIVE RESULTS OF OPERATIONS — End of year	$ 185,982	$ 161,171

See notes to financial statements.

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Results of operations	$ 24,811	$ 116,527
Adjustments to reconcile results of operations to net cash provided by operating activities:		
Depreciation	2,943,660	2,497,774
Central Data Repository write-off	-	1,068,697
(Increase) decrease in assets:		
Accounts receivable from member organizations	571,133	41,730
Other accounts receivable	14,995	151,274
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities payable to member organizations	(319,538)	151,924
Other accounts payable and accrued liabilities	642,017	(598,992)
Accrued payroll and annual leave	(1,891)	(209,443)
Deferred revenue (current and non-current)	(199,161)	(552,620)
Deferred rent	-	(32,515)
Net cash provided by operating activities	3,676,026	2,634,356
CASH FLOWS FROM INVESTING ACTIVITIES — Capital expenditures	(3,362,003)	(2,763,850)
NET (DECREASE) INCREASE IN CASH	314,023	(129,494)
CASH BALANCE — Beginning of year	708,677	838,171
CASH BALANCE — End of year	$ 1,022,700	$ 708,677

See notes to financial statements.

1. ORGANIZATION AND PURPOSE

The Federal Financial Institutions Examination Council (the "Council") was established under Title X of the Financial Institutions Regulatory and Interest Rate Control Act of 1978. The purpose of the Council is to prescribe uniform principles and standards for the federal examination of financial institutions and to make recommendations to promote uniformity in the supervision of these financial institutions. The five agencies which 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 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.

Appraisal Subcommittee — 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. 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 of America (GAAP).

Revenues — Assessments made on member organizations are to fund its operations 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. Uniform Bank Performance Report (UBPR) revenue is adjusted at year-end to match expenses incurred as a result of providing UBPR service. 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.

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), an internally developed software project, is recorded at cost as required by the Internal Use Software Topic of FASB Accounting Standards Codification. (See Note 4)

Deferred Revenue — Deferred revenue includes cash collected and accounts receivable primarily related to the CDR and HMDA. (See Notes 4 and 5)

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.

Recently Issued Accounting Standards — On June 30, 2009, the FASB issued SFAS No. 168, "The Statement of Financial Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles" (SFAS 168). SFAS 168 establishes the FASB Accounting Standards Codification (ASC) as the source of authoritative accounting principles recognized by the FASB to be applied by entities in the preparation of financial statements in conformity with GAAP. The ASC does not change current GAAP, but it introduces a new structure that organizes the authoritative standards by topic. SFAS 168 is effective for financial statements issued for periods ending after September 15, 2009. In accordance with the requirements of this standard the ASC is referenced in the Council's financial statements and footnotes.

The Subsequent Events Topic of FASB ASC establishes general standards of accounting for and disclosure of events that occur through the balance sheet date but before financial statements are issued or are available to be issued. The ASC sets forth (i) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements; and (iii) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date, including disclosure of the date through which an entity has evaluated subsequent events and whether that represents the date the financial statements were issued or were available to be issued. The Council adopted the standard for the year ended December 31, 2009.

3. TRANSACTIONS WITH MEMBER ORGANIZATIONS

	2009	2008
Accounts receivable:		
Board of Governors of the Federal Reserve System	$ 209,922	$ 373,466
Federal Deposit Insurance Corporation	439,609	466,052
National Credit Union Administration	48,593	109,261
Office of the Comptroller of the Currency	244,883	522,167
Office of Thrift Supervision	57,995	101,190
	$ 1,001,002	$ 1,572,136
Accounts payable and accrued liabilities:		
Board of Governors of the Federal Reserve System	$ 618,861	$ 650,672
Federal Deposit Insurance Corporation	247,870	396,899
National Credit Union Administration	20,877	40,085
Office of the Comptroller of the Currency	72,103	132,891
Office of Thrift Supervision	21,469	80,171
	$ 981,180	$ 1,300,718
Operations:		
Assessments to member organizations for operating expenses	$ 589,988	$ 574,447
FRB provided administrative support services to the Council at an expense of	245,000	190,400
Member organizations provide office space and data processing services to the Council at an expense of	4,618,154	4,374,577

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.

	2009	2008
Examiner education — the Council provides seminars in the Washington, D.C. area and at regional locations throughout the country for member organization examiners and other agencies. Tuition revenue earned from member organizations was	$ 2,220,876	$ 1,627,429

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, and to store this information in a Central Data Repository (CDR).

The CDR was placed into service in October 2005. At that time, the Council began depreciating the CDR project on the straight-line basis over its estimated useful life of 63 months. In 2009, the Council reevaluated the useful life of CDR and decided to extend the estimated useful life by an additional 36 months based on enhanced functionality of the software. The Council records depreciation expenses and recognizes the same amount of revenue. The value of the CDR asset as of December 31, 2009 and 2008, includes the fully accrued and paid cost. The accrued costs related to CDR are $204,000 as of December 31, 2009.

	2009	2008
Capital asset CDR:		
Beginning balance	$ 14,140,655	$ 12,858,440
Software placed in use during the year	4,090,617	1,282,215
Software in use	18,231,272	14,140,655
Software in development	-	1,895,904
Total asset	$ 18,231,272	$ 16,036,559
Other accounts payable and accrued liabilities:		
Payable to UNISYS for the CDR project	$ 729,166	$ 609,203
Other vendors unrelated to the CDR project	197,885	43,335
Total other accounts payable and accrued liabilities	$ 927,051	$ 652,538

Revenues — Central Data Repository — The Council is funding the project by billing the three participating Council member organizations (FRB, FDIC, and OCC). Funding for the year ended December 31, 2009 and 2008, is as follows.

Deferred Revenue	**2009**	**2008**
Beginning balance	$ 8,173,666	$ 9,776,071
Additions	2,194,713	895,369
Less revenue recognized	(2,943,660)	(2,497,774)
Ending balance	$ 7,424,719	$ 8,173,666
Current portion deferred revenue	$ 1,856,180	$ 3,138,881
Long-term deferred revenue	5,568,539	5,034,785
	$ 7,424,719	$ 8,173,666

Total CDR Revenue		
Revenue	$ 2,943,660	$ 2,497,774
Hosting and maintenance fees	2,797,497	3,662,704
Total CDR revenue	$ 5,741,157	$ 6,160,478

Professional Fees		
Hosting and maintenance fees for the CDR project	$ 2,797,497	$ 3,662,704
Other professional fees unrelated to the CDR project	876,882	598,556
Total professional fees	$ 3,674,379	$ 4,261,260

Depreciation		
Depreciation for the CDR project	$ 2,943,660	$ 2,497,774
Average monthly depreciation	$ 245,305	$ 208,148

5. OTHER REVENUE

HMDA — The Council entered into an agreement with FRB to maintain and support the HMDA processing system. In 2007, the Council began a rewrite of the entire HMDA processing system. The total estimated cost for the rewrite is $3.2 million over 4 years. The HMDA rewrite will enhance the processing system. The cost of the software in process is $2,344,680 and $1,544,895 as of December 31, 2009 and 2008, respectively. The accrued costs related to the HMDA rewrite are $65,000 as of December 31, 2009. The financial activity associated with the processing system for the year ended December 31, 2009 and 2008, is as follows.

HMDA Deferred Revenue	**2009**	**2008**
HMDA:		
The Council recognized the following revenue from member organizations for the production and distribution of reports under the HMDA	$ 2,234,514	$ 2,088,052
The Council recognized the following revenue from the Department of Housing and Urban Development's participation in the HMDA project	559,151	600,089
The Council recognized the following revenue from the Mortgage Insurance Companies of America for performing HMDA-related work	278,308	264,193
The balance of the HMDA revenue for 2009 and 2008 from sales to the public	-	17,201
Total HMDA	$ 3,071,973	$ 2,969,535

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 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. The Council recognized revenue for coordinating and providing certain administrative support to the UBPR project.

Appraisal Subcommittee — The Council recognized revenue in 2008 for providing space to the Appraisal Subcommittee.

6. OPERATING LEASES

The FRB, on behalf of the Council, entered into two operating leases at market value to secure office and classroom space. One lease terminated in 2008. The second lease terminated in 2009. The Council entered into a new lease with the FDIC as of January 2010.

Years Ending December 31	Amount
2010	$ 258,385
2011	261,598
2012	264,900
2013	268,292
2014	271,772
Total minimum lease payments	$1,324,947

Rental expenses under these operating leases were $247,648 and $454,184 as of December 31, 2009 and 2008, respectively.

7. CAPITAL LEASES

In December 2009, the Council entered into a capital lease for printing equipment. The capital lease term extends through 2014. Furniture and equipment includes $97,391 in 2009 for the capital lease. The capital lease will commence in January 2010, when the Council will begin to depreciate the asset and pay interest accordingly. The Council will begin payments towards the capital lease in February 2010.

The future minimum lease payments required under the capital lease and the present value of the net minimum lease payments as of December 31, 2009, are as follows:

Years Ending December 31	Amount
2010	$ 24,466
2011	24,466
2012	24,466
2013	24,466
2014	24,467
Total minimum lease payments	122,331
Less amount representing maintenance	(6,000)
Net minimum lease payments	116,331
Less amount representing interest	(18,940)
Net minimum lease payments	97,391
Less current maturities of capital lease payments	(16,815)
Long-term capital lease obligations	$ 80,576

8. SUBSEQUENT EVENTS

There were no subsequent events that require adjustments to or disclosures in the financial statements as of December 31, 2009. Subsequent events were evaluated through March 9, 2010, which is the date the Council issued the financial statements.

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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

The Federal Financial Institutions Examination Council:

We have audited the financial statements of the Federal Financial Institutions Examination Council (the "Council") as of and for the year ended December 31, 2009, and have issued our report thereon dated March 9, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

Distribution

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

Deloitte + Touche LLP

McLean, VA
March 9, 2010