

*Federal Financial Institutions
Examinations Council*

*Financial Statements as of and for the Years
Ended December 31, 2008 and 2007, and
Independent Auditors' Report*

FEDERAL FINANCIAL INSTITUTIONS EXAMINATIONS COUNCIL

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007:	
Balance Sheets	2
Statements of Revenues and Expenses and Changes in Cumulative Results of Operations	3
Statements of Cash Flows	4
Notes to Financial Statements	5–10
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	11–12



INDEPENDENT AUDITORS' REPORT

The Federal Financial Institutions Examinations Council:

We have audited the accompanying balance sheets of the Federal Financial Institutions Examinations Council (the "Council") as of December 31, 2008 and 2007, and the related statements of revenues and expenses and changes in the 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 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 Examinations Council as of December 31, 2008 and 2007, 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 6, 2009, 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 6, 2009

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL**BALANCE SHEETS****AS OF DECEMBER 31, 2008 AND 2007**

ASSETS	2008	2007
CURRENT ASSETS:		
Cash	\$ 708,677	\$ 838,171
Accounts receivable from member organizations (Note 3)	1,572,136	1,613,866
Other accounts receivable, net (Note 2)	105,623	256,897
Total current assets	2,386,436	2,708,934
CAPITAL ASSETS		
Furniture and equipment, at cost	24,199	56,121
Central Data Repository, at cost (Note 4)	16,036,559	15,141,191
HMDA Software, at cost (Note 3)	1,544,895	745,110
Less accumulated depreciation	(7,887,093)	(5,421,241)
Net capital assets	9,718,560	10,521,181
TOTAL ASSETS	\$ 12,104,996	\$ 13,230,115
LIABILITIES AND CUMULATIVE RESULTS OF OPERATIONS		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities payable to member organizations (Note 3)	\$ 1,300,718	\$ 1,148,794
Other accounts payable and accrued liabilities (Note 4)	652,538	1,251,530
Accrued payroll and annual leave	22,008	231,451
Deferred revenue (current portion) (Note 4)	3,388,881	2,497,774
Total current liabilities	5,364,145	5,129,549
LONG-TERM LIABILITIES:		
Deferred revenue (non-current portion) (Notes 3 and 4)	6,579,680	8,023,407
Deferred rent (Note 5)	-	32,515
Total long-term liabilities	6,579,680	8,055,922
Total liabilities	11,943,825	13,185,471
CUMULATIVE RESULTS OF OPERATIONS	161,171	44,644
TOTAL LIABILITIES AND CUMULATIVE RESULTS OF OPERATIONS	\$ 12,104,996	\$ 13,230,115

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, 2008 AND 2007

	2008	2007
REVENUES:		
Assessments on member organizations (Note 3)	\$ 574,447	\$ 540,813
Central Data Repository (Note 4)	6,160,478	5,723,376
Home Mortgage Disclosure (Note 6)	2,969,535	2,830,584
Tuition (Note 3)	1,744,029	2,141,331
Community Reinvestment Act (Note 6)	931,244	881,953
Uniform Bank Performance Report (Note 6)	565,522	585,973
Appraisal Subcommittee (Note 6)	178,963	216,556
Total revenues	<u>13,124,218</u>	<u>12,920,586</u>
EXPENSES:		
Data processing	4,126,928	3,988,462
Professional fees (Note 4)	4,261,260	4,057,023
Salaries and related benefits (Note 3)	1,164,304	1,374,193
Depreciation (Note 4)	2,497,774	2,474,070
Rental of office space (Note 7)	454,184	516,364
Administration fees (Note 3)	190,400	190,800
Travel	135,006	120,181
Books and subscriptions	16,255	96,696
Other seminar expenses	30,824	21,571
Rental and maintenance of office equipment	41,998	56,598
Office and other supplies	33,980	26,686
Printing	43,261	27,099
Postage	2,475	5,075
Miscellaneous	9,042	4,514
Total expenses	<u>13,007,691</u>	<u>12,959,332</u>
RESULTS OF OPERATIONS	116,527	(38,746)
CUMULATIVE RESULTS OF OPERATIONS, Beginning of period	<u>44,644</u>	<u>83,390</u>
CUMULATIVE RESULTS OF OPERATIONS, End of period	<u>\$ 161,171</u>	<u>\$ 44,644</u>

See accompanying Notes to Financial Statements.

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDING DECEMBER 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
RESULTS OF OPERATIONS	\$ 116,527	\$ (38,746)
Adjustments to reconcile results of operations to net cash provided by operating activities:		
Depreciation	2,497,774	2,474,070
Central Data Repository write-off	1,068,697	-
(Increase) decrease in assets:		
Accounts receivable from member organizations	41,730	(616,524)
Other accounts receivable	151,274	(13,717)
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities payable to member organizations to member organizations	151,924	351,701
Other accounts payable and accrued liabilities	(598,992)	606,092
Accrued payroll and annual leave	(209,443)	(81,587)
Deferred revenue (current and non-current)	(552,620)	506,896
Deferred rent	(32,515)	(25,648)
Net cash provided by operating activities	<u>2,634,356</u>	<u>3,162,537</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	<u>(2,763,850)</u>	<u>(2,980,966)</u>
Net cash used in investing activities	<u>(2,763,850)</u>	<u>(2,980,966)</u>
NET (DECREASE) INCREASE IN CASH	(129,494)	181,571
CASH BALANCE, Beginning of period	<u>838,171</u>	<u>656,600</u>
CASH BALANCE, End of period	<u>\$ 708,677</u>	<u>\$ 838,171</u>

See accompanying Notes to Financial Statements.

FEDERAL FINANCIAL INSTITUTIONS EXAMINATIONS COUNCIL

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

1. ORGANIZATION AND PURPOSE

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 primarily related to the CDR and Home Mortgage Disclosure Act (HMDA). (See Notes 3 and 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

<u>Accounts Receivable</u>	<u>2008</u>	<u>2007</u>
Board of Governors of the Federal Reserve System	\$ 373,466	\$ 343,739
Federal Deposit Insurance Corporation	466,052	434,908
National Credit Union Administration	109,261	97,765
Office of the Comptroller of the Currency	522,167	500,397
Office of Thrift Supervision	101,190	237,057
	<u>\$ 1,572,136</u>	<u>\$ 1,613,866</u>

<u>Accounts Payable and Accrued Liabilities</u>	<u>2008</u>	<u>2007</u>
Board of Governors of the Federal Reserve System	\$ 650,672	\$ 532,047
Federal Deposit Insurance Corporation	396,899	182,491
National Credit Union Administration	40,085	66,342
Office of the Comptroller of the Currency	132,891	344,659
Office of Thrift Supervision	80,171	23,255
	<u>\$ 1,300,718</u>	<u>\$ 1,148,794</u>

Operations

Assessments to member organizations for:

Operating Expenses	\$ 574,447	\$ 540,813
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FRB provided administrative support services to the Council at an expense of:

	\$ 190,400	\$ 190,800
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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.

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:

	\$ 1,627,429	\$ 2,036,000
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Operations

Other Member Expenses Member organizations provide office space and data processing services to the Council at an expense of:

	\$ 4,374,577	\$ 3,945,705
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HMDA Deferred Revenue

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 cost of the software in process is \$1,544,895 and \$745,110 as of December 31, 2008 and 2007, respectively.

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 expenses and recognizes the same amount of deferred revenue. The value of the CDR asset includes the fully accrued and paid cost.

<u>Capital Asset CDR</u>	<u>2008</u>	<u>2007</u>
Beginning balance	\$ 12,858,440	\$ 12,313,244
Software placed in use during the year	1,282,215	545,196
Software in use	14,140,655	12,858,440
Software in development	1,895,904	2,282,751
Total asset	<u>\$ 16,036,559</u>	<u>\$ 15,141,191</u>
<u>Other Accounts Payable and Accrued Liabilities</u>		
Payable to UNISYS for the CDR project	\$ 609,203	\$ 841,392
Other vendors unrelated to the CDR project	43,335	410,138
Total other accounts payable and accrued liabilities	<u>\$ 652,538</u>	<u>\$ 1,251,530</u>

Revenues - Central Data Repository

The Council is funding the project by billing the three participating Council member organizations (FRB, FDIC, and OCC).

	<u>2008</u>	<u>2007</u>
Deferred Revenue:		
Beginning balance	\$ 9,776,071	\$ 10,014,285
Additions	895,369	2,235,856
Less: Revenue recognized	(2,497,774)	(2,474,070)
Ending balance	<u>\$ 8,173,666</u>	<u>\$ 9,776,071</u>
Current portion deferred revenue	\$ 3,138,881	\$ 2,497,774
Long-term deferred revenue	<u>5,034,785</u>	<u>7,278,297</u>
	<u>\$ 8,173,666</u>	<u>\$ 9,776,071</u>
Total CDR Revenue		
Deferred revenue	\$ 2,497,774	\$ 2,474,070
Hosting and maintenance fees	<u>3,662,704</u>	<u>3,249,306</u>
Total CDR revenue	<u>\$ 6,160,478</u>	<u>\$ 5,723,376</u>
<u>Professional Fees</u>		
Hosting and maintenance fees for the CDR project	\$ 3,662,704	\$ 3,249,306
Other professional fees unrelated to the CDR project	<u>598,556</u>	<u>807,717</u>
Total professional fees	<u>\$ 4,261,260</u>	<u>\$ 4,057,023</u>
<u>Depreciation</u>		
Depreciation for the CDR project	<u>\$ 2,497,774</u>	<u>\$ 2,474,070</u>
Average monthly amortization	<u>\$ 208,148</u>	<u>\$ 206,173</u>

5. DEFERRED RENT

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**

<u>Home Mortgage Disclosure Act (HMDA)</u>	<u>2008</u>	<u>2007</u>
Home Mortgage Disclosure Act (HMDA) The Council recognized the following revenue from member organizations for the production and distribution of reports under the HMDA:	\$ 2,088,052	\$ 1,857,454
The Council recognized the following revenue from the Department of Housing and Urban Development's participation in the HMDA project:	600,089	699,663
The Council recognized the following revenue from the Mortgage Insurance Companies of America for performing HMDA-related work:	264,193	258,986
The balance of the HMDA revenue for 2008 and 2007 from sales to the public:	<u>17,201</u>	<u>14,481</u>
Total HMDA	<u>\$ 2,969,535</u>	<u>\$ 2,830,584</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 FRB, on behalf of the Council, entered into two operating leases to secure office and classroom space. One lease terminated in 2008 and the other terminates in 2009 with a lease extension option of five years. Rental expenses under these operating leases were \$454,184 and \$516,364 as of December 31, 2008 and 2007, respectively. The minimum lease payments for 2009 are estimated to be \$255,261.



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS 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, 2008, and have issued our report thereon dated March 6, 2009. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance

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 grants, 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 6, 2009