



FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

Financial Statements

December 31, 2003

(With Independent Auditors' Report Thereon)



KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Financial Statements

To 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, 2003 and 2002, 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 the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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, the financial statements referred to above present fairly, in all material respects, the financial position of the Council at December 31, 2003 and 2002, 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 reports dated February 27, 2004, on our consideration of the Council's internal control over financial reporting and its compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit conducted in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

KPMG LLP

February 27, 2004



FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

BALANCE SHEETS

| <u>ASSETS</u> | <u>As of December 31,</u> | |
|---|---------------------------|---------------------|
| | <u>2003</u> | <u>2002</u> |
| CURRENT ASSETS | | |
| Cash | \$ 838,566 | \$ 350,302 |
| Accounts receivable from member organizations (Note 3) | 3,749,319 | 623,428 |
| Other accounts receivable | <u>216,983</u> | <u>183,288</u> |
| Total current assets | 4,804,868 | 1,157,018 |
| CAPITAL ASSETS | | |
| Central Data Repository, at cost (Note 4) | 7,439,750 | 0 |
| Furniture and equipment, at cost | 98,672 | 98,672 |
| Less accumulated depreciation | <u>(98,575)</u> | <u>(98,285)</u> |
| Net furniture and equipment | <u>7,439,847</u> | <u>387</u> |
| Total assets | <u>\$ 12,244,715</u> | <u>\$ 1,157,405</u> |
| <u>LIABILITIES AND CUMULATIVE RESULTS OF OPERATIONS</u> | | |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued liabilities payable to member organizations (Note 3) | \$ 1,022,377 | \$ 852,742 |
| Other accounts payable and accrued liabilities (Note 4) | 3,606,384 | 105,956 |
| Accrued annual leave | 20,029 | 30,522 |
| Deferred revenue (Note 2) | <u>103,330</u> | <u>0</u> |
| Total current liabilities | 4,752,120 | 989,220 |
| LONG-TERM LIABILITIES | | |
| Deferred revenue (Note 2) | 7,336,420 | 0 |
| Deferred rent (Note 5) | <u>155,103</u> | <u>157,792</u> |
| Total long-term liabilities | 7,491,523 | 157,792 |
| Total liabilities | <u>12,243,643</u> | <u>1,147,012</u> |
| CUMULATIVE RESULTS OF OPERATIONS | <u>1,072</u> | <u>10,393</u> |
| Total liabilities and cumulative results of operations | <u>\$ 12,244,715</u> | <u>\$ 1,157,405</u> |

See accompanying notes to financial statements.

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

**STATEMENTS OF REVENUES AND EXPENSES
AND CHANGES IN CUMULATIVE RESULTS OF OPERATIONS**

| | <u>For the years ended December 31</u> | |
|--|--|----------------------|
| | <u>2003</u> | <u>2002</u> |
| REVENUES | | |
| Assessments on member organizations (Note 3) | \$ 529,600 | \$ 562,900 |
| Tuition | 1,578,596 | 1,668,682 |
| Other revenue (Note 6) | <u>4,137,734</u> | <u>4,188,973</u> |
| Total revenues | <u>6,245,930</u> | <u>6,420,555</u> |
| EXPENSES | | |
| Data processing | 3,632,323 | 3,682,607 |
| Salaries and related benefits | 1,199,283 | 1,528,697 |
| Rental of office space | 617,796 | 634,399 |
| Professional fees | 363,300 | 320,551 |
| Books and subscriptions | 126,916 | 161,800 |
| Travel | 83,311 | 95,157 |
| Administration fees | 72,250 | 69,593 |
| Rental and maintenance of office equipment | 70,314 | 84,681 |
| Other seminar expenses | 28,887 | 49,622 |
| Office and other supplies | 21,294 | 31,798 |
| Postage | 18,585 | 18,191 |
| Printing | 10,812 | 62,641 |
| Telephone | 7,273 | 4,007 |
| Depreciation and net losses on disposals | 290 | 5,731 |
| Miscellaneous | <u>2,617</u> | <u>3,650</u> |
| Total expenses | <u>6,255,251</u> | <u>6,753,125</u> |
| RESULTS OF OPERATIONS | (9,321) | (332,570) |
| CUMULATIVE RESULTS OF OPERATIONS, Beginning of year | <u>10,393</u> | <u>342,963</u> |
| CUMULATIVE RESULTS OF OPERATIONS, End of year | <u>\$ 1,072</u> | <u>\$ 10,393</u> |

See accompanying notes to financial statements.

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

STATEMENTS OF CASH FLOWS

| | <u>For the years ended December 31</u> | |
|--|--|--------------------------|
| | <u>2003</u> | <u>2002</u> |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| RESULTS OF OPERATIONS | \$ (9,321) | \$ (332,570) |
| Adjustments to reconcile results of operations to net cash provided by (used in) operating activities: | | |
| Depreciation and net losses on disposals | 290 | 5,731 |
| (Increase) decrease in assets: | | |
| Accounts receivable from member organizations | (3,125,891) | 187,932 |
| Other accounts receivable | (33,695) | 154,254 |
| Increase (decrease) in liabilities: | | |
| Accounts payable and accrued liabilities to member organizations | 169,635 | (309,894) |
| Other accounts payable and accrued liabilities | 3,500,428 | 18,593 |
| Accrued annual leave | (10,493) | 1,954 |
| Deferred revenue | 7,439,750 | 0 |
| Deferred rent | (2,689) | 7,635 |
| Net cash provided by (used in) operating activities | <u>7,928,014</u> | <u>(266,365)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Capital expenditures | <u>(7,439,750)</u> | <u>0</u> |
| Net cash provided by (used in) investing activities | <u>(7,439,750)</u> | <u>0</u> |
| NET INCREASE (DECREASE) IN CASH | 488,264 | (266,365) |
| CASH BALANCE, Beginning of year | <u>350,302</u> | <u>616,667</u> |
| CASH BALANCE, End of year | <u>\$ 838,566</u> | <u>\$ 350,302</u> |

See accompanying notes to financial statements.

**FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002**

(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 hereafter 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)

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 financial statements have been prepared on the accrual basis of accounting.

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 so that total tuition revenue equals expenses incurred by the Examiner Education office. Any difference between revenue and expense is reported in accounts payable to member organizations if revenue exceeds expense and in accounts receivable from member organizations if expenses exceed revenue.

**FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002**

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), a software project, is recorded at cost (See Note 4).

Deferred Revenue - Deferred revenue represents cash collected and accounts receivable related to the CDR, which is in the systems development phase. (see Note 4)

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Reclassifications - Certain 2002 amounts have been reclassified to conform with the 2003 presentation.

(3) TRANSACTIONS WITH MEMBER ORGANIZATIONS

Accounts Receivable from Member Organizations

| | 2003 | 2002 |
|--|--------------|------------|
| Board of Governors of the Federal Reserve System | \$ 475,499 | \$ 42,775 |
| Federal Deposit Insurance Corporation | 3,204,925 | 267,561 |
| National Credit Union Administration | 900 | 15,953 |
| Office of the Comptroller of the Currency | 47,825 | 113,898 |
| Office of Thrift Supervision | 20,170 | 183,241 |
| | \$ 3,749,319 | \$ 623,428 |

The five member organizations are each assessed one-fifth of the expected cash needs based on the annual operating budget. The annual assessment for each member organization was:

| | | |
|--|------------|------------|
| | \$ 105,920 | \$ 112,580 |
|--|------------|------------|

The Council provides seminars in the Washington area and at regional locations throughout the country for member organization examiners and other agencies. The Council received tuition payments from member organizations in the amount of:

| | | |
|--|-----------|-----------|
| | 1,501,846 | 1,622,287 |
|--|-----------|-----------|

FRB provided administrative support services to the Council at a cost of:

| | | |
|--|--------|--------|
| | 72,250 | 69,593 |
|--|--------|--------|

**FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002**

| | <u>2003</u> | <u>2002</u> |
|--|--------------|--------------|
| Member organizations provided office space, data processing and printing services to the Council. The Council paid member organizations: | \$ 3,839,951 | \$ 3,957,242 |

| | | |
|---|-----------|---|
| The Council assessed FDIC and FRB for the CDR project in the amount of: | 7,439,750 | 0 |
|---|-----------|---|

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

Council employees are paid through the payroll systems of member organizations. Salaries and fringe benefits, including retirement benefit plan contributions disbursed on behalf of the Council are reimbursed in full to these organizations. The Council does not have any post-retirement or post-employment benefit liabilities since Council employees 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 has not been included in the accompanying financial statements.

(4) CENTRAL DATA REPOSITORY (CDR)

In 2003, the Council entered into a ten year agreement with UNISYS, totaling approximately \$38,000,000, to enhance the methods and systems used to collect, validate, process and distribute Call Report information. The new system will replace the current FDIC process for Call Reporting. The Council decided to fund the project by direct assessments on the three participating Council member organizations (FRB, FDIC and OCC). OCC's participation will begin when the CDR becomes operational. The Council will capitalize payments during the system development stage and will account for the direct assessments on the participating agencies as deferred revenue (see Note 2). Capitalized expenses and direct assessments on the participating members were \$7,439,750 in 2003. When the project goes into operation, the capitalized cost will be depreciated over the estimated useful life of the project, ongoing operating costs will be charged to expense and reimbursed by direct assessments on the participating members, and deferred revenue will be amortized to match the depreciation expense charged.

As of December 31, 2003, the amount reported as other accounts payable and accrued liabilities included \$3,502,000 payable to UNISYS for the CDR project, and the balance was payable to other vendors unrelated to the CDR project.

**FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002**

(5) DEFERRED RENT

In 1998, the Council entered into a lease for office space. This lease contains rent abatements and scheduled rent increases, which, in accordance with accounting principles generally accepted in the United States of America, must be considered in determining the annual rent expense to be recognized by the Council. The deferred rent represents the difference between the actual lease payments and the rent expense recognized.

(6) OTHER REVENUE

| | 2003 | 2002 |
|--|--------------|--------------|
| <u>Home Mortgage Disclosure Act (HMDA)</u> | | |
| The Council recognized the following revenue from member organizations for the production and distribution of reports under the Home Mortgage Disclosure Act (HMDA): | \$ 1,891,023 | \$ 2,212,882 |
| The Council recognized the following revenue from the Department of Housing and Urban Development's participation in the HMDA project: | 419,742 | 338,426 |
| The Council recognized the following revenue from the Mortgage Insurance Companies of America for performing HMDA related work: | 232,066 | 256,992 |
| The balance of the HMDA revenue for 2003 and 2002 was from sales to the public: | 25,607 | 38,122 |
| Total HMDA | 2,568,438 | 2,846,422 |
| <u>Uniform Bank Performance Report (UBPR)</u> | | |
| The Council recognized the following revenue for coordinating and providing certain administrative support to the UBPR project: | 568,939 | 282,396 |
| <u>Appraisal Subcommittee</u> | | |
| The Council recognized the following revenue for providing space and certain administrative support to the Appraisal Subcommittee: | 191,599 | 210,291 |
| <u>Community Reinvestment Act</u> | | |
| The Council recognized the following revenue for support of operating expenses from the participating member agencies: | 808,718 | 849,293 |
| <u>Miscellaneous</u> | 40 | 571 |
| | \$ 4,137,734 | \$ 4,188,973 |

**FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002**

(7) OPERATING LEASES

The Council entered into operating leases to secure office and classroom space for periods ranging from two to ten years. Minimum future rental commitments under those operating leases having an initial or remaining noncancellable lease term in excess of one year at December 31, 2003 are as follows:

| | |
|------|---------------------|
| 2004 | \$ 347,624 |
| 2005 | 354,575 |
| 2006 | 361,526 |
| 2007 | 368,476 |
| 2008 | 280,267 |
| | <u>\$ 1,712,468</u> |

Rental expenses under these operating leases were \$558,537 and \$569,863 in 2003 and 2002, respectively.



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Washington, DC 20036

Independent Auditors' Report on Internal Control over Financial Reporting

To the Federal Financial Institutions Examination Council:

We have audited the balance sheets of the Federal Financial Institutions Examination Council (the Council) as of December 31, 2003 and 2002, and the related statements of revenues and expenses and changes in cumulative results of operations, and cash flows for the years then ended, and have issued our report thereon dated February 27, 2004. 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.

In planning and performing our fiscal year 2003 audit, we considered the Council's internal control over financial reporting by obtaining an understanding of the Council's internal control, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. The objective of our audit was not to provide assurance on the Council's internal control over financial reporting. Consequently, we do not provide an opinion thereon.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses under standards issued by the American Institute of Certified Public Accountants. Material weaknesses are conditions 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. However, we noted no matters involving the internal control and its operation that we consider to be material weaknesses as defined above.

This report is intended solely for the information and use of the members of the Council and its management, the Office of the Inspector General, the U.S. Office of Management and Budget, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

February 27, 2004





KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Compliance with Laws and Regulations

To the Federal Financial Institutions Examination Council:

We have audited the balance sheets of the Federal Financial Institutions Examination Council (the Council) as of December 31, 2003 and 2002, and the related statements of revenues and expenses and changes in cumulative results of operations, and cash flows for the years then ended, and have issued our report thereon dated February 27, 2004. 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.

The management of the Council is responsible for complying with laws and regulations applicable to the Council. As part of obtaining reasonable assurance about whether the Council's 2003 financial statements are free of material misstatement, we performed tests of the Council's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests of compliance with the laws and regulations described in the preceding paragraph disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the members of the Council and its management, the Office of the Inspector General, the U.S. Office of Management and Budget, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

February 27, 2004

